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Economic and Social Council

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8 April 2014

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Economic and Social Commission for Asia and the Pacific

Seventieth session
Bangkok, 23 May 2014 (Phase I)
Item 7 of the provisional agenda*
Dates, venue and theme topic for the seventy-first session of the Commission (2015)

Dates, venue and theme topic for the seventy-first session of the Commission (2015)

Note by the secretariat**

Summary

The present document contains information on the possible dates and venue of the seventy-first session of the Commission, which is to be held in 2015, and two proposals for a theme topic for that session.

The Commission may wish to make a decision on these matters.

I. Introduction

1. The present document contains suggestions made by the secretariat for the consideration of the Commission at its seventieth session. The Commission may wish to consider the dates, venue and theme topic for its seventy-first session, to be held in 2015, and to provide the secretariat with guidance in this regard.

II. Dates and venue

2. Rule 1 of the rules of procedure of the Commission requires it to recommend the dates and venue for its next session, subject to the approval of the Economic and Social Council and in consultation with the Secretary-General. In accordance with established practice, at each session, the Commission recommends the convening of the next session. The actual dates and venue are then determined by the Executive Secretary in consultation with the members and the Chair of the Commission.

3. In addition, in rule 1 of the rules of procedure it is stated that sessions of the Commission shall ordinarily be held at the office of the United Nations in Asia and the Pacific, unless the Commission recommends otherwise.

* E/ESCAP/70/L.1/Rev.1.

** The late submission of the present document is due to the delay in consultations with the Advisory Committee of Permanent Representatives and Other Representatives Designated by Members of the Commission (ACPR) due to the exceptional circumstances.

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III. Theme topic

4. The secretariat submits the following topics for the consideration of the Commission:

(a) Integration of three dimensions of sustainable development;

(b) Building institutions for sustainable development.

Topic 1
Integration of three dimensions of sustainable development

5. The United Nations Conference on Sustainable Development, which was held in June 2012, resulted in an outcome document, "The future we want", which was subsequently endorsed by the General Assembly in its resolution 66/288. In "The future we want", member States renewed their commitment to sustainable development and to ensuring the promotion of an economically, socially, and environmentally sustainable future for the planet and for present and future generations. The regional commissions, in particular, are tasked with promoting the balanced integration of the three dimensions of sustainable development in their respective regions. However despite the conceptual and political consensus that integrated policy and decision-making across the three dimensions is the pathway to sustainable development, there is a dearth of thinking around how to operationalize it in an actual decision-making and policy context, and around how to make it a norm rather than an exception.

6. This proposed theme study will:

(a) Analyse the trade-offs and synergies among the three pillars and how they interact with one another. Through this analysis, the study will be able to identify key areas where the three pillars overlap and, hence, identify opportunities for maximizing synergies;

(b) Examine, through national and regional case studies, how countries have attempted to integrate the three pillars into their policies in a manner that addresses economic growth, poverty reduction, inequalities, exclusion and environmental sustainability. Also, analyse lessons learned from these country experiences;

(c) Propose a conceptual framework that will assist countries in examining economic, social and environmental dimensions of specific policies and which strategies and approaches would maximize the synergies and minimize the trade-offs between the three pillars.

Topic 2
Building institutions for sustainable development

7. The proposal for the theme study is to explore the institutional framework that is best suited to achieving sustainable development in the region. Achievement of sustainable development requires deliberate institutional design.

8. There is a large body of literature documenting institutional requirements for enhanced economic performance but there is limited information and experience on the type of institutions that are best suited for balanced integration of the economic, social and environmental pillars of sustainable development. Promoting integrated decision-making across the three dimensions may require adopting a "systems approach" rather than

predominantly sectoral or "silo" approaches, which is the current norm. In addition, it may require promoting coordination and collaboration not only between various sectoral institutions but also at the local, subnational and national levels of government and between government and non-State actors. It may also require greater coordination and collaboration between governments and non-State actors at the subregional, regional and global levels. This may lead to the development of new institutional frameworks that promote coordination and collaboration at the different levels.

9. The proposed theme study will:

(a) Examine which institutional frameworks are best suited for putting in place cross-sectoral policies that advance sustainable development and implement them;

(b) Illustrate, through case studies, how institutions and projects have integrated the economic, social and environmental pillars in development;

(c) Consider norms for building stronger institutional frameworks at the national and regional levels to enable the transition towards sustainable development.

IV. Previous theme topics

10. For reference, a list of the theme topics of previous Commission sessions is contained in the annex to the present document.

Annex

List of theme topics of previous Commission sessions*

Session	Year	Theme topic
40	1984	Technology for development
41	1985	Technology for development
42	1986	Human resources development
43	1987	Human resources development
44	1988	Human resources development
45	1989	Restructuring the developing ESCAP economies in the 1990s
46	1990	Restructuring the developing ESCAP economies in the 1990s
47	1991	Industrial restructuring in Asia and the Pacific, in particular with a view to strengthening regional cooperation
48	1992	Regional economic cooperation in the ESCAP region: prospects, priorities and policy options
49	1993	Expansion of investment and intraregional trade as a vehicle for enhancing regional economic cooperation and development
50	1994	Infrastructure development as key to economic growth and regional economic cooperation
51	1995	Strengthening of regional cooperation in human resources development with special reference to the social implications of sustainable economic growth in Asia and the Pacific
52	1996	Sustainable development and poverty alleviation in Asia and the Pacific
53	1997	Asia and the Pacific into the twenty-first century: opportunities and challenges for ESCAP
54	1998	Asia and the Pacific into the twenty-first century: status of and prospects for social development
55	1999	Asia and the Pacific into the twenty-first century: information technology, globalization, economic security and development
56	2000	Development through globalization and partnership in the twenty-first century: an Asia-Pacific perspective for integrating developing countries and economies in transition into the international trading system on a fair and equitable basis
57	2001	Balanced development of urban and rural areas and regions within the countries of Asia and the Pacific
58	2002	Sustainable social development in a period of rapid globalization: challenges, opportunities and policy options
59	2003	Integrating economic and social concerns, especially HIV/AIDS, in meeting the needs of the region
60	2004	Meeting the challenges in an era of globalization by strengthening regional development cooperation

B14-00334

Session	Year	Theme topic
61	2005	Implementing the Monterrey Consensus in the Asian and Pacific region: achieving coherence and consistency
62	2006	Enhancing regional cooperation in infrastructure development, including that related to disaster management
63	2007	Development of health systems in the context of enhancing economic growth towards achieving the Millennium Development Goals in Asia and the Pacific
64	2008	Energy security and sustainable development in Asia and the Pacific
65	2009	Towards sustainable agriculture and food security in the Asia-Pacific region
66	2010	Addressing challenges in the achievement of the Millennium Development Goals: promoting a stable and supportive financial system; and green growth or environmentally sustainable economic growth, including through technology and financing
67	2011	Beyond the crises: Long-term perspectives on social protection and development in Asia and the Pacific
68	2012	Enhancing regional economic integration in Asia and the Pacific
69	2013	Opportunities to build resilience to natural disasters and major economic crises
70	2014	Regional connectivity for shared prosperity

* Fortieth through seventieth sessions.

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Economic and Social Council

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19 May 2014

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Economic and Social Commission for Asia and the Pacific

Seventieth session
Bangkok, 23 May 2014 (Phase I)
Item 7 of the provisional agenda*
Dates, venue and theme topic for the seventy-first session of the Commission (2015)

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Summary

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I. Introduction

1. The present document contains suggestions made by the secretariat for the consideration of the Commission at its seventieth session. The Commission may wish to consider the dates, venue and theme topic for its seventy-first session, to be held in 2015, and to provide the secretariat with guidance in this regard.

II. Dates and venue

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* E/ESCAP/70/L.1/Rev.1.

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3. In addition, in rule 1 of the rules of procedure it is stated that sessions of the Commission shall ordinarily be held at the office of the United Nations in Asia and the Pacific, unless the Commission recommends otherwise.

III. Theme topic

4. At an informal meeting on the theme study for the seventy-first session held on 14 May 2014, the Advisory Committee of Permanent Representatives and Other Representatives Designated by Members of the Commission (ACPR) proposed the following as the theme study for the seventy-first session:

> "Balancing the three dimensions of sustainable development: From integration to implementation".

5. The United Nations Conference on Sustainable Development, held in June 2012, resulted in an outcome document subsequently adopted as General Assembly resolution 66/288 ("The Future We Want") in which Member States renewed their commitment to sustainable development and to ensuring the promotion of an economically, socially and environmentally sustainable future for present and future generations. The outcome tasked the regional commissions with promoting the balanced integration of the three dimensions of sustainable development in their respective regions.

6. Although there is consensus that the achievement of sustainable development requires an integrated approach to policy formulation and decision-making across the economic, social and environmental pillars, there is a dearth of thinking about how to operationalize such an integrated approach. The first task of this study, therefore, will be to consider a conceptual framework that can capture the synergies and trade-offs among the three dimensions of sustainable development. Such a framework will provide a way to evaluate the extent to which various policy options contribute to sustainable development.

7. The study will subsequently consider which types of institutions and policies are best suited for a balanced integration of the economic, social and environmental pillars of sustainable development. For that purpose, the study will explore the feasibility of adopting decision-making processes that assist in coordinating or integrating the predominantly sectoral approaches which are the current norm. In addition, the study will discuss the importance of enhanced coordination and collaboration between local, subnational and national levels of government, as well as between government and non-State actors, for the achievement of sustainable development. It will also draw lessons from the experiences of countries that have implemented cross-sectoral approaches that seek to integrate the three dimensions of sustainable development. In addition, the study will discuss the type of regional support needed to promote the integration of the three dimensions of sustainable development at the country level.

8. The study should promote policy dialogues in the region on concrete policy measures and institutional reforms required to help Asia and the Pacific take pioneering steps towards the implementation of sustainable development.

9. The proposed theme study will do the following:

(a) Analyse the trade-offs and synergies among the three dimensions and how they interact with one another. Through this analysis,

the study will be able to identify key areas where the three pillars overlap and hence, identify opportunities for maximizing synergies;

(b) Examine, through national and regional case studies, how countries have attempted to integrate the three pillars in their policies in a manner that addresses economic growth, poverty reduction, inequalities, exclusion, resilience and environmental sustainability; also analyse lessons learned from these country experiences;

(c) Propose a conceptual framework that will assist countries in examining economic, social and environmental dimensions of specific policies and which strategies and approaches would maximize the synergies and the minimize the trade-offs between the three pillars;

(d) Examine which institutional frameworks are best suited for putting in place cross-sectoral policies that advance sustainable development and implement them;

(e) Illustrate, through case studies, how national and regional institutions and projects have integrated the economic, social and environmental pillars in development;

(f) Consider norms for building stronger institutional frameworks at the country and regional levels to enable the transition towards sustainable development.

10. In addition to summarizing the key findings and messages, the concluding section of the study will reflect on three critical means of implementation of sustainable development across the region – finance, trade, and technology transfer and capacity-building – and discuss how development partners and South-South cooperation could support countries with special needs in these areas. This will set the stage for an in-depth study to be undertaken later.

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63	2007	Development of health systems in the context of enhancing economic growth towards achieving the Millennium Development Goals in Asia and the Pacific
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69	2013	Opportunities to build resilience to natural disasters and major economic crises
70	2014	Regional connectivity for shared prosperity

* Fortieth through seventieth sessions.

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21 April 2014

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Economic and Social Commission for Asia and the Pacific

Seventieth session
Bangkok, 4-8 August 2014 (Phase II)
Item 8(b) of the provisional agenda*
Policy issues for the Asia-Pacific region: Economic and Social Survey of Asia and the Pacific 2014

Summary of the Economic and Social Survey of Asia and the Pacific 2014

Note by the secretariat**

Summary

The average growth rate of the developing economies of Asia and the Pacific is forecast to rise moderately in 2014. However, in line with the wide diversity in the region, growth performances will vary across subregions and countries.

More rapid growth in the region is being held back by a number of factors. First, slow growth in advanced economies continues to negatively affect exports and the financial sector. Second, the tapering of quantitative easing by the United States of America is putting further pressure on the recovery of several economies by causing significant capital outflows. Third, economies are facing a number of domestic challenges, especially some of the larger developing economies, in such areas as infrastructure shortages, large budget deficits, inflationary pressure and rising and persistent inequality.

With constrained growth prospects, productive government spending is critical to support inclusive growth and sustainable development. Unlocking the fiscal space for such spending poses a challenge that the *Survey* seeks to examine. It is done by analysing how countries can raise more tax revenues given that taxes in most countries in the region are neither sufficient nor equitable. Estimates in the *Survey* indicate that a large number of countries have significant tax potential. Tapping this would enable tax revenues to rise by at least 70% in several of them.

Tax revenues may be enhanced through a number of policy measures. Among them in particular are broadening tax bases and rationalizing tax rates in order to provide greater incentives for tax compliance. Strengthening regional tax cooperation would further boost revenues as it would reduce tax competition and the illicit transfer of funds.

A key argument in the *Survey* is the need to make tax administrations more effective and transparent in order to tackle tax evasion and tax fraud. The *Survey* contains a number of policy options for sequencing tax policy reforms and tax administration along with a call to establish special tax courts to deal with tax fraud expeditiously. Also presented in the *Survey* is the case for establishing an Asia-Pacific tax forum, under the aegis of ESCAP, to monitor the tax legislation of member countries and publish a regular review of tax reforms with a view to harmonizing tax regulations and sharing best practices.

The Commission may wish to deliberate on the issues raised and policy proposals in the present document and how these recommendations can be strengthened for the shared benefit of member States.

* E/ESCAP/70/L.1/Rev.1.

** The late submission of the present report is due to the non-availability of 2014 data by the submission deadline.

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I. Introduction

1. In 2014, the average growth rate of developing economies of Asia and the Pacific is forecast to rise to 5.9%.[1] This represents a modest increase of 0.3 percentage points from 2013. Reflecting the diversity of the region, growth performances are projected to vary substantially among subregions and economies. While growth in South and South-West Asia and developing Pacific economies is expected to improve, the other subregions are likely to experience a stable or slowing performance.

2. Although the developing Asia-Pacific economies continue to anchor the global economic recovery, both external and internal factors are holding them back from achieving more rapid growth. Apart from a slow recovery in developed economies, capital outflows stemming from a change in the

[1] The forecasts and data are as of 8 May 2014.

monetary policy of the United States of America pose difficulties for a number of economies. Growth in some large developing economies in the region is also challenged by domestic structural impediments.

3. Growth and macroeconomic stability in the region continue to be affected by policies and low growth in the developed world. Concerns about a reduction in quantitative easing (referred to as "tapering") by the United States Federal Reserve caused significant asset market volatility in September 2013 and then again in January 2014. Countries responded with a mix of policies — letting currencies depreciate, use of foreign exchange reserves and interest rate rises.

4. In 2013, some of the region's major economies were also affected by domestic challenges. These include infrastructure shortages, large budget deficits, inflationary pressure, inadequate expansion of good quality jobs in the formal sector and rising inequality. The constrained domestic growth prospects of the region underline the important role of productive government spending in efforts to achieve inclusive growth and sustainable development. A critical challenge will be the funding of the necessary development programmes.

5. The *Survey* analyses in detail how to raise domestic resources, in particular expand fiscal space. Countries especially need to strengthen tax collection, as levels of tax revenue are currently neither sufficient nor equitable. Analysis of the level and composition of existing tax revenues in countries of the region demonstrates that many countries have significant tax potential. Tapping this would enable tax revenues to rise by at least 70% in several countries. While some tax exemptions and concessions are useful, many are depressing tax revenues. Moreover, unless foreign investors can offer something extra compared with domestic investors, preferential tax treatment of foreign investors only distorts competition and puts local companies at a disadvantage.

6. Tax revenues may be enhanced through a number of policy measures, such as broadening tax bases, rationalizing tax rates to provide greater incentives for tax compliance, expeditious dealing with tax evasion and tax fraud, and making tax administrations more effective and transparent. In this context, an outline of a strategy for sequencing reforms of tax policy and tax administration, including establishing special tax courts, is contained in the *Survey*. It is also argued that strengthening regional cooperation would enable countries to raise levels of tax revenue by stemming tax competition and the illicit transfer of funds. In this regard, a proposal to establish an Asia-Pacific tax forum under the aegis of ESCAP is made.

7. The following summary of the *Survey* is divided in four sections. In section II, the challenges facing the region are considered in greater detail. The section begins with a discussion of growth prospects in developed countries and the potential for spillover of developed countries' policies to the region. It then provides a review of growth and inflation prospects in the region, followed by the outlook for regional trade developments and prospects for foreign direct investment. Section III contains a discussion on some of the major socioeconomic challenges in the region, such as the problems of job creation and inequality. In section IV, policy recommendations to address some of these issues are provided, namely productive government spending to directly support growth in the short-term while helping to address structural challenges affecting growth in the long-term, measures to address youth unemployment, and policies to manage the risks from volatility in financial flows.

8. In section V, greater depth of the findings of the *Survey* on how to expand fiscal space is provided. It begins with an explanation of why strengthening tax revenues may be the most promising path to create fiscal space in the region, and then contains a discussion on how the composition of revenues matters as much as their level. This is followed by a presentation of estimates of the tax potential in selected countries of the region, highlighting those countries that are currently collecting lower tax revenues than would be appropriate given their economy's structure. The section concludes with a presentation of policy options for countries to enhance their tax revenues.

II. Growth recovery under pressure

A. Slow growth and policies of developed economies impacting the region

9. Growth in Asia and the Pacific in 2013 was affected by slow growth in the major developed economies — the United States, the eurozone and Japan. Given the importance of these economies in terms of trade and investment linkages, their continued slow recovery remains a concern for the region. It will be challenging to significantly increase growth in the major developed economies in the near-term. A surge in consumer demand is unlikely to occur in the United States and the eurozone with joblessness remaining high. While the financial markets in the eurozone were reasonably calm in 2013, risk of macroeconomic instability stemming from renewed loss of confidence by investors in resolving debt issues persists. Furthermore, there are differing views regarding the possibility of deflation in the eurozone.[2] Within Asia and the Pacific, the growth outlook for Japan depends on the impact of an ongoing reform programme, which includes a hike in the sales tax implemented in April 2014 and a range of policies to change the country's economic structure yet to be announced.

10. Policies in the developed world also had a significant impact on the region through spillovers from tapering by the United States. In January 2014, there was an episode of capital outflows from the region, with the greatest equity market falls occurring in Turkey (7.7%) and in India (4.4%). This followed a more widespread exit of funds in the third quarter of 2013 on expectations by the financial markets that tapering would start in September 2013. The Turkish equity market experienced the greatest decline (25%) during the period June-August 2013, followed by Indonesia and Thailand (nearly 20%). In August 2013 alone, stock market capitalization in the region declined by more than $323 billion as compared to the previous month.

B. Domestic impediments to growth

11. Growth in the Asia-Pacific region in 2013 was also affected by relatively tepid growth in some major regional economies due to domestic challenges. Some of the major challenges are infrastructure shortages, large budget deficits, inflationary pressure, inadequate job creation in the formal sector and rising inequality.

12. Infrastructure shortages have led to significant gaps in productive capacity. These gaps have contributed to inflationary pressures. Inadequate growth in formal sector jobs and the rise in informal or vulnerable jobs constrain sustainable expansion of domestic demand when external demand is

[2] International Monetary Fund, "Euro Area — "Deflation" Versus "Lowflation". Available from blog-imfdirect.imf.org/2014/03/04/euro-area-deflation-versus-lowflation/.

faltering. Research confirms that rising inequality is harmful to economic stability and growth. The *Survey* finds a positive association between inequality (Gini coefficient) and household debt.

13. Relatively slow growth in China, India and Indonesia compared to the pre-crisis level affected economic growth in smaller countries due to their dependence on those larger economies through regional value chains.

C. Region's growth and inflation prospects

14. Growth in the region in 2013 increased slightly to 5.6% from 5.4% in 2012. There was, however, variation in the growth rate by subregion. In East and North-East Asia, a highly trade-dependent subregion, growth edged up, benefiting from improved global growth prospects. The deceleration in growth that had been experienced by China since 2010 came to a halt in 2013, while growth in most other economies improved. The subregion as a whole is projected to post steady growth in 2014, although the economies of China and Japan could grow modestly. China is unlikely to return to the pre-crisis growth rates in the short to medium-term as the country plans to put more effort into rebalancing growth and increasing the share of domestic demand, particularly through consumption. Recent structural reforms, such as the transformation of China towards a market-based system and the effort of the Republic of Korea to promote corporate investment and job creation, should help enhance the subregion's medium-term growth prospects.

15. Growth in South-East Asia slowed to 5% in 2013 from 5.5% in 2012 as the sluggish global economic recovery held back exports, particularly in the first half of the year. Growth in domestic demand also decelerated in large emerging economies, such as in Indonesia, due to monetary tightening in response to higher inflation and capital flight, and in Thailand, on the back of rising household debt and political uncertainty. In contrast, the economy of the Philippines grew rapidly despite being hit by Typhoon Haiyan in late 2013. The least developed countries in the subregion — Cambodia, the Lao People's Democratic Republic, Myanmar and Timor-Leste — maintained high growth rates, underpinned in part by steady foreign investment inflows. In 2014, growth rates of the economies of the subregion are expected to remain largely unchanged, as an anticipated rebound in exports on the back of stronger global demand may be counterbalanced by ongoing financial market volatility.

16. North and Central Asia recorded slower growth of 2.1% in 2013 compared to 3.8% in the previous year. The resource-based economies, particularly the Russian Federation, were affected by subdued global demand for energy, gold and metals. Meanwhile, the fiscal balance of a number of the subregion's economies was affected by an increase in public spending, especially on social programmes, made as part of efforts to sustain domestic demand. In net energy-importing economies, output growth declined owing to subdued household spending. This was partially due to a deceleration in remittances in line with slowing growth in the Russian Federation, the largest host of migrant workers in the subregion. Output growth in the subregion is expected to decline further in 2014 primarily due to the impact of ongoing geopolitical instability on the economy of the Russian Federation, which is projected to grow at only 1%. Due to their strong links with the Russian Federation, several other economies of North and Central Asia are also expected to experience slower growth.

17. Growth in South and South-West Asia picked up to 3.9% in 2013 from 3.4% in 2012. Stronger growth in India, Maldives, Sri Lanka and Turkey can be attributed to increased household spending supported by steady farm incomes and remittances. Energy shortages have constrained economic

activities in several economies. Political tension and security issues adversely affected growth in Afghanistan, Bangladesh, Nepal and Pakistan. Tapering in the United States triggered capital market volatility in India and Turkey, which underscored weak macroeconomic fundamentals, such as large current account deficits that were financed by short-term external borrowing. Room for fiscal manoeuvrability is limited in those countries given their large fiscal deficits. Growth in the subregion is projected to further increase in 2014 subject to a stronger global economy and improved household consumption and investment. Tackling supply-side constraints, especially energy shortages, is vital to future growth.

18. Growth in Pacific island developing economies dipped to 4% in 2013 from 5.3% in 2012, mainly due to an economic slowdown in the resource-rich economies of Papua New Guinea and Solomon Islands. Natural disasters also constrained economic expansion in Fiji and Samoa. The 2014 outlook for the economies of this subregion is brighter, commensurate with the prospects of the global economy. Heavy reliance on imported food and fuel together with limited export capacity generally resulted in sizeable current account deficits among the Pacific island economies. Key development challenges for the subregion in general are poor resource bases, remoteness from global markets, weak public services delivery and high vulnerability to natural disasters and climate change.

19. Inflation differed substantially across the region in 2013. In South-East Asia and East and North-East Asia, it remained low due to constrained global demand. Low inflation enabled most of these economies to implement an accommodative monetary policy, which entailed keeping interest rates stable or reducing them. On the other hand, inflation rates were generally high in South and South-West Asia, forcing policymakers to tighten monetary policy. The 2014 inflation outlook for the region as a whole is generally moderate. However, a number of the major economies, such as Bangladesh, India, Indonesia, Pakistan and Viet Nam, are expected to continue to face significant price pressures.

D. Gradual trade recovery

20. Exports from the region are expected to pick up in 2014 as the medium-term prospects for global trade improve on the back of the ongoing recovery in major developed countries. One of the key factors preventing an even more favourable outlook for trade is limited progress in the Doha Round of multilateral trade negotiations. The multilateral trading system has remained fragmented as seen at the Ninth Ministerial Conference of the World Trade Organization (WTO), which was held in Bali, Indonesia, from 3 to 7 December 2013. Furthermore, ESCAP analysis indicates that export growth of the region is being hampered significantly by non-tariff trade protectionist measures globally and in the region, as well as by relatively high trade costs.

21. Intraregional trade has expanded in recent years helped by greater integration stemming from harmonization of rules and standards. This has been especially noticeable between the ASEAN economies and the rest of the region. A factor of critical importance for the region's trade relationships is likely to be Chinese reform policies directed at improving the quality of growth by promoting domestic consumption. This could deliver significant benefits for exporting economies in the region, especially those that export consumer goods.

22. Least developed countries' low share of Asia-Pacific trade continues to be a concern. These countries account for only 0.7% of total regional exports, valued at $50 billion in 2012. Therefore, more effort must be put into integrating those

countries into regional supply chains, which can be done by granting them preferential market access and improving their productive capacity. At the same time, there needs to be better connectivity through improved hard and soft infrastructure in order to deepen trade integration across countries and subregions.

E. Positive outlook for foreign direct investment

23. Foreign direct investment (FDI) inflows to the developing economies of the region rose slightly in 2013. Asia and the Pacific remained the largest recipient region of global FDI flows, accounting for nearly one quarter of global FDI. However, the Pacific subregion has been drawing less than 1% of the region's FDI inflows. Intraregional FDI flows within Asia and the Pacific are on the rise, with the ASEAN economies and China being especially attractive destinations to Asian investors.[3]

24. Falling Greenfield FDI and possible effects of FDI in agriculture are concerns. Greenfield FDI usually provides more direct benefits compared to cross-border mergers and acquisitions by creating new investment through the establishment of production facilities. FDI in agriculture has in some instances led to the displacement of smallholders and damage to the environment. The World Bank has highlighted the danger of land acquisitions that neglect local people's rights and the susceptibility of smallholders to manipulation by investors.[4] Appropriate policies should be put in place to safeguard against speculative land investments or acquisitions, as well as to prevent environmental degradation.

25. In addition to FDI, there is growing scope for foreign exchange earnings from remittances and tourism. Remittances to developing economies in the region increased to $265 billion in 2013 from $49 billion in 2000. Asia and the Pacific is the highest remittance-receiving region in the world, both in absolute and relative terms. International tourism receipts increased to $320 billion in 2013 from $169 billion in 2004. For many economies in the region, especially in the Pacific, the level of dependence on the tourism sector and related services is significant at about 20% of GDP.

26. Thus, both remittances and tourism have the potential to play an important role in development in the region. Policymakers, however, must be cognizant of possible drawbacks, such as brain drain and adverse socioecological consequences. For example, manpower exports may exacerbate brain drain while remittances could widen income disparities if they are not invested in productive resources. Similarly, uncontrolled expansion of tourism may have adverse ecological and social consequences.

III. Socioeconomic developments

A. Jobs growth and quality still show mixed progress

27. Low formal sector job creation is a major socioeconomic issue in the region. Both before and after the crisis, GDP growth in the region was not accompanied by a commensurate expansion in formal sector employment. This can be attributed to technological change and labour substitution, as well as to

[3] United Nations Conference on Trade and Development, *Global Investment Monitor*, No. 15 (28 January 2014). Available from unctad.org/en/PublicationsLibrary/webdiaeia014d1_en.pdf.

[4] World Bank, "Land and Food Security", 2 October 2012. Available from web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTARD/0,,contentMDK:23284610~pagePK:148956~piPK:216618~theSitePK:336682,00.html.

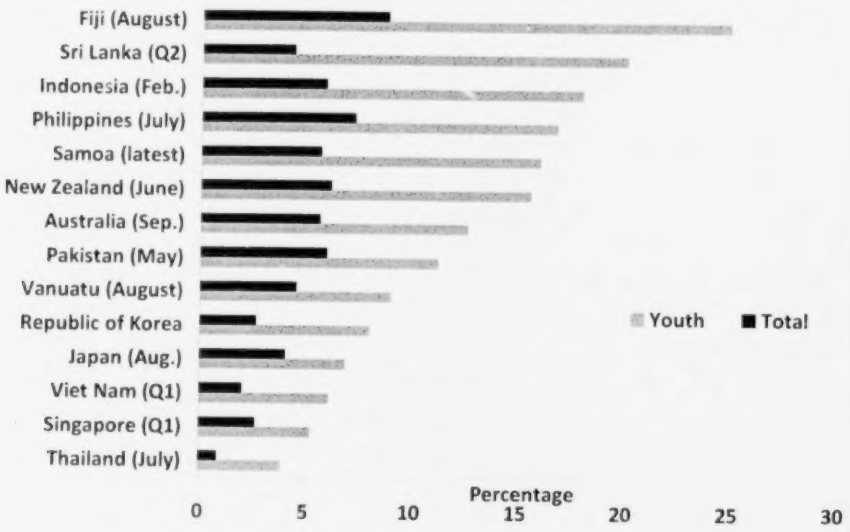
the nature and pattern of economic growth, which was not based on broad-based economy-wide development.

28. There are also concerns about job quality. A majority of workers in the region are informally employed or own-account or contributing family workers and have limited opportunities in finding work that is more productive, secure and salaried. Also, a large percentage of people in the region hold very low-paid jobs. The number of "working poor", those who earn less than $2 a day, is highest in South and South-West Asia. The prevalence of working poor and vulnerable employment are clear manifestations of the lack of economic and social opportunities.

29. Young people in the region, in particular, struggle to find decent and productive employment (see figure 1). The youth unemployment rate is almost three times the adult unemployment rate. The high rate of youth unemployment is the result of several factors, such as lack of decent and productive jobs, the mismatch between education and employers' requirements, low secondary schooling completion rates, gender discrimination and high youth aspirations. Many countries now have a potential demographic dividend. Yet, to make the dividend a reality, they need to secure productive employment for the growing pool of young people, especially young women.

Figure 1

Total and youth unemployment rates in selected Asia-Pacific economies, 2013 or latest available data



Sources: ESCAP, based on data from the International Labour Organization and estimates from national labour force surveys. Pacific economies information obtained from the Secretariat of the Pacific Community.

Note: Total includes ages 15+; youth includes ages 15-24 except Pakistan (aged 15-19) and Singapore (residents aged 15-29); non-seasonally adjusted.

B. Inequality hampering sustainability of growth

30. Another key socioeconomic challenge in Asia and the Pacific is inequality. At the regional level, income inequality (the Gini coefficient) increased from 33.5 in the 1990s to 37.5 in 2010. At the national level, the Gini coefficient has increased in many major economies in recent decades. A

specific area of concern is gender inequality, which is intrinsically linked to the prevalence of gender-based violence in the region. These challenges continue to inhibit the full participation of women in public life. They affect not only the well-being of women themselves, but also that of their families and their communities, and can weaken social and economic stability.

31. High levels of income inequality seriously undermine economic and social achievements. For example, GDP per capita for many economies in the region declines significantly when adjusted for income inequality. The ESCAP social development index,[5] which combines education and life expectancy, shows that inequality in several emerging and low-income economies is also having a serious impact on social development.

32. ESCAP analysis of country-level household debt and inequality data covering the post-crisis period, which is drawn from 81 developing countries globally, including 26 economies in the region, shows a positive association between inequality and household indebtedness. This finding conforms to recent research of the International Monetary Fund (IMF).[6] With income growth lagging, the poorer sections of society tend to increase debt-financed consumption made possible by the availability of credit as higher income groups deposit their increasing wealth in the banking system. This trend could lead to ever-rising household debt in economies with growing inequality, making them vulnerable to shocks. As households spend more than they earn, countries increasingly face growing current account deficits, exacerbated by luxury imports by higher income groups.

IV. Policy options to deal with the challenges

A. Productive government spending to support sustainable growth

33. The obstacles to higher growth in Asia and the Pacific are not only slow economic recovery in the developed world, but also long-term structural impediments. This highlights the need for productive and countercyclical government macroeconomic support. Such policies can support growth in the short term while helping remove structural impediments in the long term. The ongoing reallocation of foreign capital away from the region as monetary policy in the United States is normalized will also increase the need for supportive policies for domestic investment. Some possible supportive measures are highlighted below.

34. *Social protection spending:* Increasing spending on social protection would help to support growth, as well as reduce inequality. Recognizing the importance and necessity of adequate social protection systems, the United Nations System Chief Executives Board adopted (April 2009) the Social Protection Floor Initiative, which was endorsed by the Member States at the United Nations Conference on Sustainable Development. Social protection is now a priority in the development agenda beyond 2015.[7]

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[5] *Economic and Social Survey of Asia and the Pacific 2012: Pursuing Shared Prosperity in an Era of Turbulence and High Commodity Prices* (United Nations publication, (Sales No. E.12.II.F.9).

[6] Michael Kumhof and Romain Rancière, "Unequal = indebted", *Finance and Development*, vol. 48, No. 3 (September, 2011). Available from www.imf.org/external/pubs/ft/fandd/2011/09/Kumhof.htm.

[7] United Nations, "Social protection: a development priority in the post-2015 UN development agenda" (UN System Task Team on the Post-2015 UN Development Agenda, 2012). Available from www.un.org/millenniumgoals/pdf/Think%20Pieces/16_social_protection.pdf.

35. Several countries in the region have recently initiated policies and programmes aimed at enhancing social welfare. There is a significant positive correlation between the extent of coverage of those policy measures and reductions in inequality as shown in the *Survey 2013*.[8] Based on World Bank data,[9] ESCAP has found that within a universal system, targeted social protection and labour market programmes are likely to reduce inequality. ESCAP has designed a social protection "toolbox"[10] to facilitate policymakers in their effort to build robust social protection systems by enabling policymakers to identify gaps at the national level, while providing useful examples on how to move forward.

36. Achieving sustainable financing is an important challenge in efforts to boost access to and increase the depth of social protection measures. Critically, the design of social protection measures needs to take into account the growing challenges governments face in dealing with the ageing structure of populations. The private sector must also contribute to this effort and partner with governments. Some global and regional funds could be established by using innovative sources of financing. In this regard, regional initiatives were proposed in the ESCAP 2013 theme study.[11]

37. *Infrastructure spending*: Governments need to address the significant shortage in infrastructure provision across the region. Apart from current needs, the demand for infrastructure is projected to increase significantly in line with growing populations and greater urbanization. An ESCAP study in 2006 estimated the infrastructure financing gaps in the Asia-Pacific region to be about $600 billion per annum.[12] A more recent study by the Asian Development Bank (ADB) in 2009 put the figure at $800 billion per annum over the period 2010-2020.[13] The private sector alone is not coming close to closing these gaps, with annual spending on infrastructure over the past 20 years averaging $13 billion per annum and being concentrated in less risky investments.

38. Existing forms of infrastructure investment in the region could be complemented by the establishment of a new large-scale lending facility using innovative development financing sources. Such an institution could issue securities in which the region's central banks would be able to park their surplus reserves. This facility could help coordinate other sources of lending, such as multilateral and bilateral development agencies and private financial institutions, while its backing of infrastructure projects could signal opportunities to private investors. As a regional mechanism, the facility could also be in a position to keep track of intraregional spillovers and finance economically significant cross-border projects, as well as provide advisory

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[8] *Economic and Social Survey of Asia and the Pacific 2013: Forward-looking Macroeconomic Policies for Inclusive and Sustainable Development* (United Nations publication, Sales No. E.13.II.F.2).

[9] World Bank, ASPIRE database: The Atlas of Social Protection - Indicators of Resilience and Equity. Available from http://datatopics.worldbank.org/aspire/.

[10] The Toolbox provides access to a database of more than 80 good practices in social protection from developing countries. For details see www.socialprotection-toolbox.org/.

[11] *Building Resilience to Natural Disasters and Major Economic Crises*. (United Nations publication, Sales No. E.13.II.F.3).

[12] *Enhancing Regional Cooperation in Infrastructure Development Including that Related to Disaster Management* (United Nations publication, Sales No. E.06.II.F.13).

[13] Asian Development Bank and Asian Development Bank Institute, *Infrastructure for a Seamless Asia* (Tokyo, Asian Development Bank Institute, 2009). Available from www.adbi.org/files/2009.08.31.book.infrastructure.seamless.asia.pdf.

services and technical assistance in the financial design of infrastructure projects.

39. Apart from shortfalls in financing, there is a clear need to significantly improve legal and regulatory frameworks for infrastructure investment across much of the region. In recent years, such frameworks have lacked clarity, which has been a significant factor behind the worsening investment climates, resulting in a reduction in new projects throughout the region. Without improvements in regulatory frameworks and policy certainty, even in the presence of adequate financing, investors will remain reluctant to enter into major investments. Meanwhile, political instability is another factor that discourages private sector investment in large infrastructure projects.

40. *Environment-related spending:* Governments must undertake spending to address environmental factors which would otherwise hamper growth prospects. Environmental damage is already constraining growth in the region. For example, environmental degradation was estimated in 2012 to cost India almost 6% of GDP annually.[14] Economic potential has also been adversely affected by the widespread loss of natural ecosystems and biodiversity.

41. Policies aimed at improving access to modern energy sources are also needed. Using such sources can make growth more sustainable and would contribute to increased growth by making households more productive. To improve access to modern energy, several countries have formulated investment strategies for energy infrastructure, which are aimed at improving energy efficiency and increasing the use of renewable sources.

42. Addressing climate change more effectively by improving climate finance must be considered in order to ensure sustainable growth. Sources of climate finance should be mobilized from both the public and private sectors. Public finance can be focused on leveraging private funding to tackle climate challenges. Specifically, climate finance mechanisms should be mainstreamed into the evolving financing framework in the context of the development agenda beyond 2015.

B. Investment in youth

43. The region is facing the enormous challenge of securing productive and decent employment for the largest generation of young people in history. This is crucial for reaping the demographic dividend. While some of the problems are caused by a lack of jobs, many young people are entering the labour force with skills that are limited or do not match the changing demands of labour markets.

44. Governments need to address the way in which youth develop from a young age and help prepare them for work with adequate knowledge, skills and experience. Active labour market programmes must be designed to effectively link education, training and skills development systems with the requirements of employers. The challenge of increasing access to education is especially great for low-income economies, where the probability of obtaining tertiary level education is low.

45. Efforts to improve education systems must focus particularly on gender inequalities. Although there has been marked improvement in this area in the region in recent years, there are still disparities that translate into untapped

[14] World Bank, India - Diagnostic assessment of select environmental challenges: an analysis of physical and monetary losses of environmental health and natural resources, vol. I. Report No. 70004-IN (Washington, D.C., 2013).

productive potential for both medium- and long-term growth. Notably, the South and South-West Asian subregion is lagging, with eight girls for every 10 boys enrolled in secondary education, but an even greater concern is that only three women for every four men are enrolled in tertiary education. There are many barriers to female education, including the burden of household work, limited appreciation of the benefits of educating girls and women, and negative social and cultural attitudes. Addressing such prejudices requires greater investment in the recruitment of female teachers and targeted support for poor families so as to render educational establishments more female-friendly.

C. Mitigating risks from capital volatility

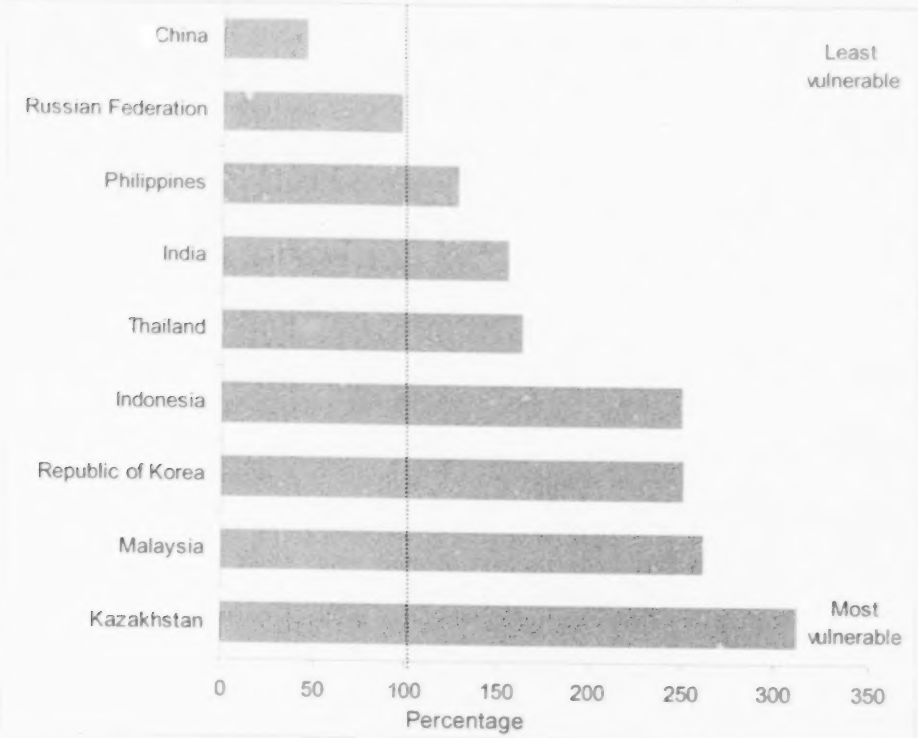
46. Economies in the region have managed the impact of capital flows volatility on their exchange rates through a combination of approaches, namely currency depreciation, using foreign exchange reserves and raising interest rates. For example, the Turkish lira depreciated by 7% against the dollar in January 2014. In the period June-August 2013, the largest currency depreciation was experienced by India (13%), followed by Indonesia, Malaysia, the Philippines, Thailand and Turkey (all between 6% and 9%). To prevent excessive depreciation of their currencies, countries used some of their foreign exchange reserves. India, Indonesia and Thailand saw the largest declines in their respective reserves, having used between $11.5 billion and $19.3 billion over the period January-August 2013. Some economies in the region also raised interest rates to manage the depreciation of their respective currencies. This approach not only increased the attractiveness of their currencies but helped policymakers mitigate the inflationary impact of depreciation on domestic prices. In January 2014, Turkey sharply raised its overnight lending rate from 7.75% to 12%, while India increased its repo rate by 25 basis points to 8%. During the earlier period of capital outflows, Indonesia increased its reference rate between May and November 2013 from 5.8% to 7.5%.

47. Countries should be vigilant about holding sufficient foreign exchange reserves. The ESCAP vulnerability yardstick considers the level of short-term foreign exchange commitments, comprising portfolio investment, short-term debt and quarterly imports, as a percentage of foreign reserves. It indicates that some economies in the region may have insufficient foreign exchange reserves to cover the exit of foreign funds from their financial markets and hence they face risks of excessive exchange rate depreciation (see figure 2).

48. Concerns about the lack of sufficient reserves at the national level to respond to the risks from capital flows volatility have underscored the need for greater regional support. Currency-related difficulties in various countries in 2013 highlighted the lack of use of current regional schemes, such as the Chiang Mai Initiative Multilateralization (CMIM). In recent instances, countries needing currency support, even those within ASEAN+3[15], have used ad hoc regional sources of funds through numerous bilateral swap agreements. An alternative to current arrangements could be a comprehensive Asia-Pacific financial support mechanism using some of the sizable foreign reserves available to the region's governments. Such a mechanism is important even for countries that are currently covered by regional agreements, as currency crises in non-protected countries can cause contagion in an interconnected region.

[15] Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam, China, Japan and Republic of Korea.

Figure 2
Vulnerability yardstick in selected Asia-Pacific economies, latest available data



Source: ESCAP, based on data from CEIC Data Company. Available from ceicdata.com (accessed 20 February 2014).

Note: Vulnerability yardstick is the sum of short-term external debt, latest quarterly imports based on four-quarter moving average and estimated international portfolio investment position, divided by foreign exchange reserves.

49. The use of foreign exchange reserves can stabilize currencies under pressure, but it is not effective in dealing with the negative impact sudden outflows have on asset markets. Therefore, as highlighted by the IMF,[16] an important additional supportive measure can be capital flows management at the national level to deal with inflow/outflow surges in asset markets. Such measures have been gaining in popularity, as recommended by ESCAP over a number of years. Some recent capital account management measures have been market-based, such as taxes or levies on particular instruments, while others have been quantitative, such as putting caps or prohibitions on purchasing particular instruments. Most of these measures have been directed at capital inflows or purchases, but some have also been targeted at discouraging capital outflows or sales. A general guideline should be that such measures become a component of long-run policies to prevent economic booms and busts.

[16] International Monetary Fund, "Liberalizing capital flows and managing outflows" (Washington, D.C., 2012). Available from www.imf.org/external/np/pp/eng/2012/031312.pdf; International Monetary Fund, "The liberalization and management of capital flows: an institutional view" (Washington, D.C., 2012). Available from www.imf.org/external/np/pp/eng/2012/111412.pdf.

V. Domestic resource mobilization: options for expanding fiscal space

50. Mobilizing domestic resources is necessary for funding the development needs of the region. There is a particular need to expand fiscal space, given large fiscal deficits in many countries.

51. Governments have a range of options for creating "fiscal space", including increasing levels of borrowing, making existing expenditure more efficient, reprioritizing expenditure to orient it more towards development or increasing tax and non-tax revenues. The option of expanding indebtedness can be risky, even when levels of debt are relatively low. For one, future debt servicing represents a drain on resources. Net interest payments already consume a quarter of total revenue in India, a third in Pakistan and a fifth in the Philippines. Other risks from borrowing are a potential rise in interest rates and maturity mismatches. Higher levels of foreign-denominated debt can also constrain countercyclical macroeconomic policy.

52. Governments can, of course, create fiscal space by making better use of existing resources. One way would be to reduce expenditure on non-priority areas. A target for cuts would be defence expenditure, which in several countries exceeds that on health and education combined and makes little if any contribution to development. Another option would be to reduce various kinds of poorly targeted consumption subsidies which in many countries account for a significant proportion of total public expenditure.

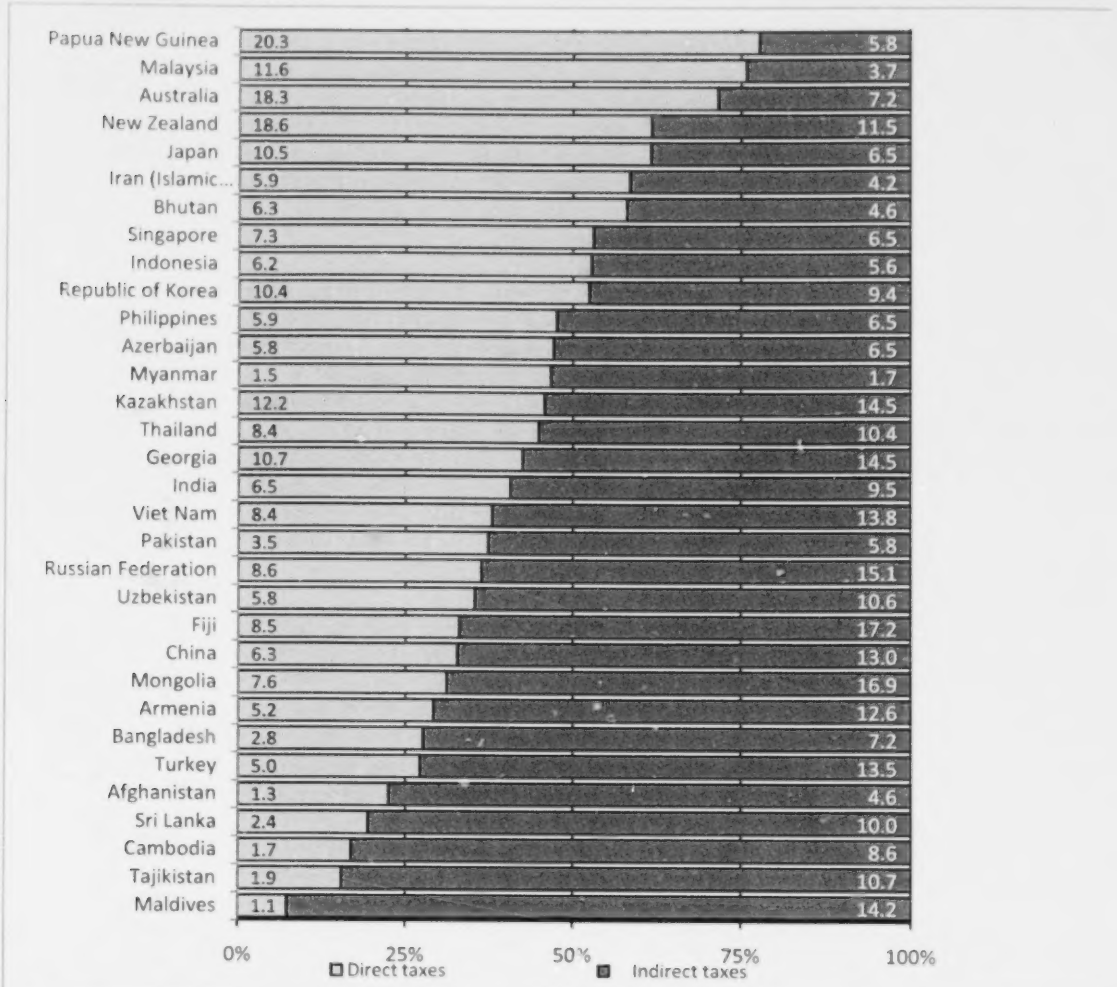
53. Primarily, governments need to raise more revenue, especially from taxes. Tax collection in Asia-Pacific developing countries is neither sufficient nor equitable. Based on past experience across the region, there appear to be numerous opportunities for improving all forms of taxation, direct and indirect, whether for corporations or individuals. In fact, many countries have been able to strengthen tax revenues over the past decade.

54. Tax collection of central governments in developing Asia-Pacific averaged only 14.8% of GDP in 2011, compared to 17.1% of GDP in Latin America and the Caribbean and 16.3% in Sub-Saharan Africa. Only seven countries (of which four were resource-rich) collected tax revenues of more than 20% of GDP in 2011, while in several others, tax-to-GDP ratios were in single digits.[17] This is far from the 25% to 35% of GDP that is considered one of the prerequisites for being able to provide the necessary financing and expenditure to become a developed country.

55. The composition of tax revenues is just as important as the level of revenues. Indirect taxes are the largest source of tax revenue in more than half of the countries in the region (see figure 3), however, their contribution to total tax revenue has been declining in most countries. A substantial component of indirect taxes in the region, particularly in the Pacific, is on international trade. To encourage trade, many economies have in recent years reduced trade taxes and focused on taxes on goods and services, such as value added taxes (VAT) or general sales taxes (GST). Revenues from VAT or GST have on average risen from less than a fifth of indirect taxes to around one half since 1990, but in many countries, such as Malaysia, Pakistan and Vanuatu, they have not offset the fall in revenues from taxes on trade.

[17] World Bank, "World Bank development indicators". Available from data.worldbank.org/data-catalog/world-development-indicators.

Figure 3
Share of direct and indirect taxes in tax revenue, and tax revenues as a percentage of GDP, 2011



Source: ESCAP calculations based upon IMF GFS, accessed November 2013, and official data sources.

Note: The numbers inside the figure denote the size of the respective taxes in terms of percentage of GDP. Data are for 2011 except for: Myanmar and Tajikistan (2004), Afghanistan (2007), Bhutan and Iran (Islamic Republic of) (2009), Maldives, Cambodia and China (2010).

56. Over the last two decades, about two thirds of the countries with available data have seen increases in direct tax revenues, comprising taxes on income, profits and capital gains, payrolls and property income. For instance, in Bhutan, India, Malaysia and Pakistan, the share of direct taxation in overall tax revenues has increased by about a quarter. This shift is generally desirable as indirect taxes affect prices and thus influence resource reallocation. Moreover, growth of indirect tax revenue, especially GST, always falls behind the growth of income or GDP as expenditure does not grow as income. As a result, GST needs to be adjusted periodically in terms of rate and coverage. Indirect taxation tends to be more regressive, but it also encourages tax evasion

or a cash economy. In contrast, direct taxes are more equitable as they can be progressive, with higher rates at higher levels of income.

57. Yet, in most countries less than half of tax revenues are raised directly. Moreover, increases in revenue from direct taxes have tended to be relatively small. One reason for this is that in many countries, personal income tax revenues are low, especially where a large proportion of the labour force is active in the informal sector or in agriculture. Wealthier individuals in many countries also may pay little income tax as a result of tax avoidance and non-compliance. In several countries, less than 1% of the population pays income tax.

A. Monitoring tax revenues

58. Governments need to be able to monitor their tax systems closely. One measure is "tax buoyancy", which captures the responsiveness of tax revenues to changes in output without distinguishing between discretionary and automatic growth of revenue. Between 2007 and 2012, tax buoyancy was mixed. It was greater than 1 in 12 out of 20 countries with available data, indicating that in those countries tax revenues increased at a higher rate than output. Among them, the four least developed countries, namely Bangladesh, Bhutan, the Lao People's Democratic Republic and Nepal, had buoyancy coefficients greater than 1.5. As tax-to-GDP ratios are less than 15% in those countries, higher buoyancies augur well for the future as tax-to-GDP ratios will increase as levels of output grow.

59. Tax revenues of most of the countries in the region are below their potential. Clearly, a country's ability to raise taxes depends on many factors — structural, developmental, institutional and socioeconomic.[18] When judging a country's capacity for raising more tax revenue, it is important to consider these factors. Analysis that takes structural factors, such as income per capita, the share of agriculture in output and the openness of the economy into account, shows that the tax potential can be quite significant. In several countries, the gap between actual revenues collected and the level that would be appropriate given the economy's structure is equivalent to 5% of GDP or more (see table). By embracing their tax potential and closing existing tax gaps, the economies of Afghanistan, Bangladesh, Bhutan, the Islamic Republic of Iran and Hong Kong, China would be able to raise their tax revenues by more than 70%.

60. One of the reasons behind the region's low tax revenues may be its relatively low tax rates. For instance, the average corporate tax rate for Asia and the Pacific was 28.2%, as compared to 32.2% for Latin America and the Caribbean and 29.8% for Africa. Corporate tax rates are often low because countries have reduced them to attract FDI. Thus, over the past seven years, two thirds of a sample of 24 countries from the region reduced their corporate tax rates. Countries that made large reductions were China, from 33% to 25%, Sri Lanka, from 32.5% to 28%, and Thailand, from 30% to 20%. However, the impacts of those reductions on FDI are not clear. If foreign investors can offer something extra compared with domestic investors, it may be useful to offer them special incentives.[19] If this is not the case, preferential tax treatment distorts competition and puts local companies at a disadvantage.

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[18] Richard A. Musgrave and Peggy B. Musgrave, *Public Finance in Theory and Practice* (New York, McGraw-Hill, 1989).

[19] Magnus Blomström, Ari Kokko and Jean-Louis Mucchielli, *The Economics of Foreign Direct Investment Incentives* (Heidelberg, Berlin, Springer, 2003).

Table
Estimated tax potential in selected Asian economies

Countries/areas	Year	Tax-to-GDP Ratio		Tax gap	Tax gap as proportion of current tax revenue
		Actual	Potential		
Afghanistan	2011	8.8	15.0	6.2	70.5
Azerbaijan	2012	12.9	15.1	2.1	16.6
Bangladesh	2013	10.5	18.0	7.5	72.1
Bhutan	2009	9.2	16.0	6.7	72.9
Cambodia	2011	10.0	13.0	3.0	30.4
China	2012	19.4	21.2	1.8	9.4
Hong Kong, China	2011	14.2	26.7	12.5	88.1
Indonesia	2012	11.9	16.6	4.7	39.3
Iran, Islamic Republic of	2013	5.8	13.1	7.2	124.5
Japan	2012	17.0	19.3	2.2	13.1
Malaysia	2012	16.1	17.4	1.3	7.9
Maldives	2010	10.7	16.5	5.8	54.2
Nepal	2013	15.2	16.1	0.9	5.6
Pakistan	2012	10.3	12.1	1.8	17.3
Philippines	2012	12.9	14.3	1.5	11.4
Singapore	2011	13.8	20.7	6.9	50.3
Thailand	2011	18.8	19.0	0.2	0.9

Source: ESCAP calculations.

Note: The tax gap is calculated by taking the difference between the estimated tax potential and the actual tax-to-GDP ratio for a given country in the year with most recent data. Only countries with a positive tax gap are listed in this table.

61. Many countries are not tapping their tax potential to the fullest extent. This is due to the liberal use of exemptions and concessions, which are also reducing the scope for tax progressivity in the region. Tax exemptions and allowances can, for instance, take the form of tax holidays, reduced corporate income tax rates, investment tax allowances and partial profit exemptions to reduce the cost of capital. At the individual level, they include tax deductions and credits for a wide range of items. Many countries also set lower tariffs on imports than their most favoured nation (MFN) rate would allow. This reduces customs and import duties. Also, tax exemptions and difficulties in implementing VAT/sales taxes contribute to lower tax revenues.

62. Tax concessions can be useful, especially if they lead to higher investment or higher growth. The revenues foregone ("tax expenditures") due to these deductions and allowances can be significant. In Georgia, the Philippines and Tajikistan, tax expenditure in corporate income tax reaches 0.5% of GDP or more. Tax expenditures in customs duties account for more than 1% of GDP in Pakistan and in the Philippines and more than 8% of GDP in China.

B. Policy options to enhance tax revenues

63. Countries with untapped tax potential can enhance tax revenues in a number of ways, such as broadening tax bases and rationalizing tax rates, tackling tax evasion and tax fraud, making tax administrations more effective

and transparent, carefully sequencing reforms of tax policy and tax administration, and strengthening regional cooperation.

64. Governments can take a number of measures to rationalize and extend their tax systems to have larger tax bases with relatively low tax rates that do not create distortions in the allocation of resources. Countries should review their indirect taxes and retain only exemptions or concessions that are achieving their stated objectives. GST and VAT systems should be made simpler. This would also entail extending these taxes to sectors that are currently exempt. There is also a case for expanding the base for customs duties to the import of services, as has already been done in some countries.

65. Revenues from direct taxes should be strengthened by implementing mechanisms for taxing capital gains in securities or property more widely. Also, appropriate mechanisms must be developed to apportion domestic and foreign operations of multinational corporations properly so that there is no loss of tax revenues. This also includes harmonizing income tax rates so that ideally the rate is the same for companies and high-income individuals in order to preserve tax progressivity and prevent income shifting to reduce tax liabilities.

66. Tackling tax evasion and tax fraud is a priority, especially considering that for the period 2001-2010, illicit capital outflows from developing countries globally totalled up to $5.9 trillion, for which the region accounted for more than 61%. To deal with the tax evasion and non-compliance, countries can introduce minimum taxes on companies and associations of person. They can address evasion of personal income tax through withholding or advance taxes and can enhance VAT revenues by increasing incentives for compliance through simpler procedures and more rapid processing of refund claims. In addition, they should consider the creation of special tax courts to tackle tax evasion and tax fraud.

67. Making a tax system equitable and efficient requires a tax administration that is free from corruption, political interference and pressure from vested interests. In many countries, a careful sequencing of reforms to tax policy and to tax administration is needed. In the first phase of reform of tax administrations, human capacity must be expanded and administrations should be organized along functional lines, in which for instance, a single department is responsible for processing returns and payments, another for audits and investigations and yet another for enforcing collections. Also, information technology systems should be integrated. In a second phase, tax bases should be broadened by detecting new tax payers and providing greater incentives for compliance. Finally, tax assessments should be based on collateral evidence collected across government departments and compliance could be strengthened further by reducing the multiplicity of taxes.

68. Reforming tax policy necessitates that governments broaden tax bases by expanding upon withholding taxes and advance tax regimes, and by reducing exemptions and concessions. Also, VAT should be expanded to cover both goods and services, maintaining measures that offset their disproportionate impact on low-income persons. Tax rates should then be rationalized to reduce distortions and remove any existing tax anomalies. Finally, legislation should be strengthened to regulate transfer pricing and to determine global incomes liable for taxation.

69. Greater regional cooperation can play an important role in mobilizing tax revenues. While competition for FDI is leading to a "race to the bottom" in terms of taxation of profits of multinational companies, tax harmonization among countries, especially those belonging to regional associations, such as

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the Association for Southeast Asian Nations (ASEAN) and the South Asian Association for Regional Cooperation (SAARC), may boost revenues. Effective regional cooperation can be used to help avoid double taxation, to combat transfer pricing by multinational corporations and to deal with tax havens.

70. Given the evidence of the status of tax collection in the region, there is a strong case for establishing an Asia-Pacific tax forum under the aegis of ESCAP. This forum could monitor the tax legislation of member countries and publish a regular review of tax reforms. It could also act as a repository of tax laws, hold seminars/workshops on emerging tax-related issues and share best practices in tax policies, tax administration and tax reforms.

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"Regional connectivity for shared prosperity"

Regional connectivity for shared prosperity

Note by the secretariat**

Summary

The recent economic success of the Asia-Pacific region has been driven largely by international trade, foreign direct investment and the emergence of global and regional production networks and value chains. These drivers, in turn, were facilitated by trade liberalization, expansion of transport links and the diffusion of information and communications technologies. However, the region's growing prosperity has not been shared equally, and there are clear signs of rising income inequality both within and between countries. In particular, the region's least developed countries, landlocked developing countries and small island developing States have yet to fully benefit from the new opportunities arising from enhanced connectivity.

It is therefore timely that the Commission selected the theme of "Regional connectivity for shared prosperity" for its seventieth session. The present document contains a discussion on the role of connectivity in driving recent economic growth in the region and identification of new drivers of growth which will shape social and economic development into the future. A set of regional strategies is then presented, the aim of which is to strengthen connectivity in four critical areas: trade and transport; information and communications technology; energy; and people-to-people connectivity.

As the region's networks become increasingly integrated and interdependent, the future of regional connectivity will depend on how closely countries in the Asia-Pacific region work together. This will require stronger institutional coordination between Governments, both across sectors and across borders. Greater cooperation is also needed to collect and analyse relevant data on connectivity, as well as to identify new sources of finance for developing regional infrastructure networks. To enhance the effectiveness of these efforts, Governments should enlist the support of the private sector, academia and civil society.

The Commission may wish to deliberate on the issues raised in the document, particularly on how the region can take advantage of extended and strengthened connectivity for the shared prosperity of its member States. The Commission may also wish to guide the secretariat on the next steps for implementing the regional strategies presented in the document.

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I. Introduction

1. Over the past 50 years, the Asia-Pacific region has experienced unprecedented economic growth. That growth, along with better standards of education and health, has contributed to the region's remarkable achievements in poverty reduction: between 1990 and 2011 the population living on income below $1.25 per day dropped from about 1.6 billion to fewer than 750 million.[1]

2. However, this still means that there are unacceptable levels of poverty, with almost two thirds of the world's poor, as measured by the $1.25 poverty line, currently living in the region. Furthermore, the region's growing prosperity has not been shared equally, and there are clear signs of rising income inequality, both within and between countries. Inequality is also becoming more pronounced in other ways, in terms of access to transport, information and communications technology (ICT) and energy resources, for example.

3. In recent years, the concept of "connectivity" has been broadened, and it has entered into mainstream development discourse. ESCAP has promoted connectivity as a necessary and integral aspect of regional integration, and identified a number of key regional networks at the core of regional connectivity, namely trade and transport, ICT and energy infrastructure and people-to-people networks.[2]

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[1] Figures are in 2005 purchasing power parity (PPP). *Statistical Yearbook for Asia and the Pacific 2013* (United Nations publication, Sales No. E.13.II.F.1), p.109.

[2] *Growing Together: Economic Integration for an Inclusive and Sustainable Asia-Pacific Century* (ST/ESCAP/2629) (Bangkok, ESCAP, 2012).

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4. Regional connectivity will offer best results if it enhances the level and effectiveness of regional networks to facilitate flows of goods, services, people and knowledge. As new drivers of growth emerge, the types of connectivity needed will also evolve. It is therefore timely that the Commission selected the theme of "Regional connectivity for shared prosperity" for its seventieth session in 2014. The document presents a summary of this year's theme study, which constitutes Part II of the *Economic and Social Survey of Asia and the Pacific 2014*.

5. The Commission may wish to deliberate on the issues raised in the document, particularly on how the region could take advantage of extended and strengthened connectivity for the shared prosperity of member States. The Commission may also wish to guide the secretariat on the next steps for implementing the regional strategies presented in the document.

II. Regional connectivity supporting economic growth and development

A. Main drivers behind the region's economic success

6. The region's recent economic growth has been driven largely by international trade, foreign direct investment and the emergence of global and regional production networks, as well as global value chains. Following the 1997/98 Asian financial crisis, countries in the region began paying greater attention to the benefits of regional integration and began to actively negotiate trade or broader economic partnership agreements.

7. Progress in trade liberalization led to the growth of foreign direct investment flows, which, together with technological changes in manufacturing processes and the diffusion of information and communication technologies, created conducive conditions for regional production networks.[3] Emerging economies in particular have benefited from regional and global value chains: in China, for example, the income derived from trade flows within global value chains, measured as "export of domestic value added", increased six-fold between 1995 and 2009, and the number of jobs sustained by the export of that value added increased from 89 million in 1995 to 146 million in 2008.[4]

8. The changing spatial distribution of regional production networks partly explains why, since 2009, intraregional trade has been growing faster than trade with the region's more traditional trading partners in Europe and North America and also why, in 2012, East and North-East Asia and South-East Asia accounted for about 75 per cent of total intraregional trade. It also explains why intraregional flows of foreign direct investment (FDI) have increased significantly in the last 10 years, mostly originating in East Asian countries but also increasingly from within the Association of Southeast Asian Nations (ASEAN). Not all such groups of countries have been as successful: in 2012, for example, the South and South-West Asian subregion

[3] See, for example, N. Kumar, Regional economic integration, foreign direct investment and efficiency-seeking industrial restructuring in Asia: the case of India, RIS discussion papers, RIS-DP, No. 123 (New Delhi, RIS, 2007). Available from www.eaber.org/sites/default/files/documents/RIS_Kumar_2007_02.pdf.

[4] Implications of global value chains for trade, investment, development and jobs, prepared for the G-20 Leaders Summit, Saint Petersburg, Russian Federation, September 2013 (OECD, WTO and UNCTAD, 2013). Available from www.oecd.org/trade/G20-Global-Value-Chains-2013.pdf.

accounted for only 13.3 per cent of exports and 8.7 per cent of imports of intraregional trade, while the North and Central Asian subregion had even smaller shares at 7.2 per cent and 8.9 per cent of exports and imports respectively.[5]

9. Differences in subregional trade performance may be explained by differences in international trade costs. According to the ESCAP-World Bank International Trade Costs Database, trade costs between South Asia and South-East Asia are higher than between either subregion and the United States, while trade costs between the Pacific island developing economies and other subregions are significantly higher than those between all other subregions.[6] Furthermore, trade costs within North and Central Asia, the Pacific island developing economies and South Asia are more than double the trade costs between China, Japan and the Republic of Korea.

10. A major factor explaining differences in trade costs is the extent of trade and transport connectivity. For example, China's participation in the global economy over the past two decades depended on reaching international markets. To support this goal, the Government promoted industrial development in specific regions of the country and invested in transport infrastructure to enable the cost-effective movement of goods to and from major maritime ports. Conversely, landlocked developing countries are at a competitive disadvantage due to the extra costs and time spent in transit and at border crossings. Meanwhile, the poor quality of land transport infrastructure acts as a major barrier to cross-border trade in the region.

11. Another factor explaining differences in trade costs is the level of containerized transport. The rise of containerization facilitated intermodal transfers, enabling different transport modes to be integrated into seamless systems. Containerization also triggered innovations in the shipping industry, leading to larger carriers and expanding the volume of freight which could be carried per trip. Given that the competitiveness of maritime transport is based on economies of scale, countries which developed container ports and shipping facilities, such as those in East Asia and South-East Asia, were able to take advantage of cheaper and more efficient maritime transport services. The issue of scale also explains why shipping operators face difficulties in offering regular services to countries with smaller economies, such as small island developing States in the Pacific.

12. Finally, the experience of East Asia and South-East Asia also shows that the simplification and harmonization of trade and transport documents helped businesses in those subregions to engage in international trade. In ESCAP research, it was found that 60-90 per cent of trade costs now had been derived from policy-related non-tariff costs, including costs at the borders, the regulatory environment, maritime connectivity and services, trade procedures and currency fluctuations.[7]

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[5] *Asia-Pacific Trade and Investment Report 2013. Turning the Tide: Towards Inclusive Trade and Investment* (United Nations publication, Sales No. E.14.II.F.2).

[6] This database provides an aggregate measure of all costs involved in trading goods internationally with another partner (i.e. bilaterally) relative to those involved in trading goods domestically. See http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=escap-world-bank-international-trade-costs.

[7] See Jean-François Arvis, and others, "Trade costs in the developing world:1995-2010", Policy Research Working Paper, No. 6309 (Washington D.C.,World Bank, 2013).

B. New drivers of growth shaping development patterns into the future

1. Trade and transport connectivity remains a priority

13. The recent economic slowdown exposed the region's vulnerability to fluctuations in the global economy, particularly the spending and investment policies of European countries and the United States of America. Thus, attention has shifted to domestic and regional markets as sources of economic growth. The development of trade and investment links between the region's more dynamic middle-income countries and their smaller and poorer neighbours will depend on how well they are connected to each other.

14. Despite significant investment in transport infrastructure, regional land transport infrastructure networks, such as the Asian Highway and Trans-Asian Railway, remain underutilized for international trade. The poor quality of infrastructure, absence of intermodal transfer facilities, cumbersome border-crossing procedures and institutional barriers to cross-border services, all reduce the efficiency of these networks.

15. At the same time, thanks to technological advances, trade and investment are now determined less by geography and more by such factors as competitiveness, timeliness and security. This situation has led to growing interest in improving the "soft" infrastructure underpinning trade and transport, as well as other means of reducing logistics costs. Both ASEAN and Asia-Pacific Economic Cooperation (APEC), for example, focus on trade and transport facilitation as part of their "institutional connectivity" agendas, while the Ninth World Trade Organization Ministerial Conference, held in Bali, Indonesia, from 3 to 6 December 2013, attempted to address the issue through its Agreement on Trade Facilitation. To enhance trade and transport connectivity, the development of both "soft" and "hard" infrastructure is a priority for the region.

2. ICT as an enabler and driver of growth

16. The Internet and mobile communications continue to radically transform ways in which businesses operate and people interact, as they drive productivity in almost every sector of the economy. Businesses and markets are rewarded by the uptake of new technology and the speed at which information can be accessed. Instant communications are increasingly important in determining the efficiency of trade, including financial services, information and data management services and transport and logistics services. Increased ICT connectivity is also opening doors to knowledge generation and sharing, particularly for people living in remote or rural areas.

17. However, Asia and the Pacific remains the most digitally divided region in the world. It is estimated that, on average, roughly 30 per cent of the people in the region use the Internet, while only 7.4 per cent of the people are believed to have access to high-speed fixed broadband.[8] The high cost of international bandwidth in Asia and the Pacific has made Internet access unaffordable for much of the region.

18. Thus, the "digital divide" is translating into new types of inequality, which cut across geography, income, education, gender and age groups. For example, even among the new "digital natives", or those young adults who have interacted with digital technologies throughout their lives, there are

[8] International Telecommunications Union, *World Telecommunication/ICT Indicators Database 2012* (Geneva, ITU, 2012).

enormous disparities between countries.[9] The key challenge for countries in the region is to develop physical infrastructure to strengthen ICT connectivity, as well as to make the Internet accessible for all.

3. Expanding the region's trade in services

19. The Asian and Pacific region has become an important player in the export of commercial services, broadly categorized as transportation, travel and other commercial services. Today, China; Hong Kong, China; India; the Republic of Korea; and Singapore are major exporters of commercial services, while some non-traditional services exporters, such as Azerbaijan; Georgia; Kyrgyzstan; Macao, China; and Mongolia, have increased their share in total Asian services exports.[10] Tourism in particular has been expanding rapidly, with the region capturing nearly one quarter of total global tourist arrivals in 2013.

20. In the future, these service sectors will offer alternative sources of growth for countries that are distant from major regional production and consumption centres, including landlocked developing countries and small island developing States. However, as services increasingly rely on fast and reliable Internet and telecommunications systems, their growth will depend on the availability of broadband connectivity.

4. Energy connectivity and security

21. The region's recent economic growth and rising affluence has resulted in a growing demand for energy resources, and with it, greater greenhouse gas emissions. In 2011, the region accounted for about 40 per cent of global oil and gas consumption, and 70 per cent of global coal consumption.[11] While several countries in the region are net exporters of energy, only a few satisfy their energy needs from their own resources.

22. To address this imbalance, many countries in the region are involved in cross-border initiatives to secure energy from other countries. These can be divided into three main groups: infrastructural projects of inter-subregional or subregional significance; infrastructural projects of bilateral significance; and maritime energy trade projects. To bridge the growing energy divide and ensure energy security for the region as a whole, what is needed now is greater energy connectivity at the regional level, along with measures to improve energy efficiency and adopt greener options.

5. Responding to population dynamics

23. The Asia-Pacific region is undergoing population change of a magnitude and pace never before witnessed in human history: between 1950 and 2013 the region's population nearly tripled, from 1.5 billion people to

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[9] For example, in the Republic of Korea, 99.6 per cent of young people have been active on the Internet for at least five years, while in Timor-Leste this figure is less than 1 per cent. See International Telecommunications Union, *Measuring the Information Society 2013* (Geneva, ITU, 2013), p. 143. Available from www.itu.int/en/ITU-D/Statistics/Pages/publications/mis2013.aspx.

[10] *Asia-Pacific Trade and Investment Report 2013. Turning the Tide: Towards Inclusive Trade and Investment* (United Nations publication, Sales No. E.14.II.F.2.).

[11] International Energy Agency, "IEA World Energy Statistics and Balances". Available from www.oecd-ilibrary.org/energy/data/iea-world-energy-statistics-and-balances_enestats-data-en.

4.3 billion.[12] Nearly all countries in the region are also experiencing population ageing, albeit at different paces. Meanwhile, improved access to transport and information has led to greater cross-border mobility, and today the Asia and Pacific region is host to 59 million migrants — or one quarter of the world's total stock.[13] As the region's economies develop and integrate, it is likely that the demand for migrants will grow and become more diversified.

24. The implications of these trends are significant for the future development of the region, and point to the urgent need to prepare effective policy responses. For example, countries in the earlier stages of the demographic transition need to expand education and employment opportunities for their young people, while countries that are rapidly ageing need to consider ways to tap into the region's labour supply. Meanwhile, an important global challenge is how to manage international labour migration in ways that protect migrants while contributing to sustainable development in both the countries of origin and host countries.[14]

6. Transitioning to knowledge-based economies

25. Knowledge is now recognized as a major source of growth, underpinning the emergence of knowledge-intensive industries. To diversify their economies and move up value chains, countries need people with skills and knowledge, as well as an innovative spirit, to develop new products and processes.

26. The Asia-Pacific region is already home to many leading research institutions and universities, but countries can also take advantage of the new opportunities for tertiary education, knowledge generation and knowledge-sharing which are emerging from improved transport and ICT connectivity. These forms of connectivity are facilitating links between universities, researchers and industry. Some countries, for example, have successfully replicated the "Silicon Valley" model of firms with close links to universities, enabling them to benefit from knowledge spillovers generated by universities. By strengthening regional knowledge-sharing networks, more countries could participate in the region's "knowledge clusters".

III. Regional strategies for enhancing regional connectivity

27. The issue for the Asian and Pacific region is not whether connectivity will increase across countries, but what forms those connections will take. While countries in the region have made significant progress in improving their domestic connectivity, their futures will depend on how closely they can work together to strengthen regional networks. It is also becoming evident that regional connectivity is multifaceted, with the connectivity of one sector influenced by the connectivity of others. This gives rise to new challenges in

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[12] Figures for 1950 come from K.S. Seetharam, "Twenty-five years of transition in Asia's population and development: a review of progress and potential", *Asia-Pacific Population Journal*, vol. 27, No. 1 (June 2012), pp. 13-32 (United Nations publication, Sales No. E.12.II.F.99). Figures for 2013 come from ESCAP, 2013 ESCAP Population Data Sheet.

[13] United Nations, Department of Economic and Social Affairs, *Trends in International Migrant Stock: The 2013 Revision*. Available from http://esa.un.org/unmigration/TIMSA2013/migrantstocks2013.htm?mhome.

[14] P.L. Martin, "Labour migration and development indicators in the Post-2015 Global Development Framework", working paper prepared for the IOM World Migration Report (Geneva, International Organization for Migration, 2012).

terms of institutional coordination, not only across borders but also across sectors.

28. As they are still in the development stage, countries in the Asian and Pacific region have the chance to develop regional networks in an integrated and coordinated manner. This can reduce costs and spread benefits to a wider group of countries, particularly to the least developed countries, landlocked developing countries and small island developing States. In this regard, four types of connectivity are identified in the study as being critical for the region: trade and transport; ICT; energy; and people-to-people connectivity.

A. Trade and transport connectivity

29. Under the auspices of ESCAP, member States have formulated a number of regional strategies and initiatives on trade and transport connectivity, including the Regional Action Programme for Transport Development in Asia and the Pacific, Phase II (2012-2016)[15] and the United Nations Network of Experts for Paperless Trade in Asia and the Pacific (UNNExT),[16] to name just a few. Many subregional organizations and multilateral development banks also actively promote trade and transport connectivity. Within the framework of these initiatives, countries should prioritize the following areas to strengthen trade and transport connectivity in the region.

1. Upgrading and integration of regional transport networks

30. ESCAP has long been a proponent of regional approaches to infrastructure development. Its efforts led to intergovernmental agreements on the Asian Highway and Trans-Asian Railway networks, which today comprise 143,000 km of roads and highways and 117,500 km of rail routes of international importance respectively. However, there are still significant infrastructure gaps, particularly between least developed countries and landlocked developing countries and the region's maritime transport network.

31. There is also tremendous potential for increasing the modal share of railways. Currently, a major obstacle to attracting freight to the railways is the lack of efficient and properly equipped intermodal facilities to transfer goods between the road and railway networks in the region. Countries must therefore invest in dry ports or inland container depots, where freight can be switched from one form of transport to another without delay or damage. In this regard, the adoption in 2013 of the Intergovernmental Agreement on Dry Ports[17] offers a useful framework for countries to develop the dry ports in the region.

2. Enhancing cooperation at border crossings

32. Another major impediment to trade and transport connectivity is the presence of multiple "choke points", particularly at borders. Border agencies are required to maintain a fine balance between facilitating trade and

[15] See Commission resolution 68/4, annex, appendix I.

[16] UNNExT is a regional community of experts that conduct research and provide support on paperless trade and the single window. For more information, see http://unnext.unescap.org.

[17] See Commission resolution 69/7. The Intergovernmental Agreement on Dry Ports was signed by 14 countries during the second session of the Forum of Asian Ministers of Transport, held in Bangkok in November 2013. Under this agreement, countries nominated important nodal points between the Asian Highway and Trans-Asian Railway networks for development into dry ports.

transport and asserting regulatory controls. These controls are important but add to the cost, time and risk involved in moving freight by land. Many countries are already taking steps to enhance cooperation between their border agencies, mostly on a bilateral basis. The next step is to integrate checkpost facilities at all international border crossings, starting with those along the Asian Highway and Trans-Asian Railway networks.

3. Harnessing ICT connectivity for trade and transport facilitation

33. The use of automated equipment and data collection systems is transforming the way border agencies operate. Automated data collection systems reduce overlaps when the same information is collected by more than one agency – and on both sides of the border. ESCAP has developed several models to show how automated equipment and new technologies, such as radio frequency identification (RFID) and the Global Positioning System (GPS), can help manage cross-border movements of trade and transport more efficiently.

34. Furthermore, the introduction of electronic platforms for trade and transport facilitation affords new opportunities for countries to simplify and standardize trade documents and processes. Today, nearly all countries in the region have some form of automated customs systems in place at key border checkpoints, and more than half are developing "single windows".[18] The ultimate target of such initiatives, including the regional cross-border paperless trade facilitation initiatives of ESCAP, is to integrate national integrated paperless supply chain platforms along an entire chain of import-export operations.[19] Such a system sets the stage for a transition to electronic logistics, or "e-logistics".[20]

4. Developing competitive regional transport and logistics services

35. Experiences from the maritime and aviation sectors have shown that the cost and quality of transport services is affected by the level of competition in the transport sector. Currently, almost all countries in the ESCAP region restrict entry of foreign transport service providers in their domestic markets, but several countries have established bilateral or trilateral arrangements to allow cross-border movements by road without the need for transport permits. Meanwhile, the draft agreement between Shanghai Cooperation Organization member States on facilitation of international road transport and its annexes are also being finalized.

36. In the case of railways, cross-border movements are hampered by institutional differences in operating rules, tariff structures and licensing requirements for train drivers and crew. However, there are also successful examples of how countries can cooperate to provide regular and competitive international railway services. ESCAP is now developing a draft regional strategic framework for the facilitation of rail transport in the region to identify and address current obstacles to cross-border rail freight movements.

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[18] Single windows enable traders to submit all required information to government agencies at one time and place, as well as to track the progress of applications and registration with government agencies.

[19] See Commission resolution 68/3 on enabling paperless trade and the cross-border recognition of electronic data and documents for inclusive and sustainable intraregional trade facilitation.

[20] "E-logistics" comprises a set of communications, computing and collaborative technologies that enable the electronic exchange of data, knowledge and information between supply chain partners.

B. ICT connectivity

37. While ICT infrastructure has been expanding rapidly in Asia and the Pacific, bandwidth on average is still far more limited than in Europe or North America. The wide disparities in access and costs, both within and between countries, arise in part from the current configuration of fibre-optic networks. Insufficient land-based routes for international Internet traffic in the region means that the majority of traffic is exchanged through submarine cables, with routings based on hub-and-spoke configurations and moving through multiple Internet exchange points.

38. To address these shortcomings, ESCAP is promoting the concept of an Asia-Pacific information superhighway, which would comprise a cohesive "meshed" regional terrestrial fibre-optic network. Such a network would complement existing submarine cable networks and would enhance in particular the ICT connectivity of landlocked countries that are located thousands of kilometres from undersea cables. The competition introduced by such a network could lower the cost of international bandwidth and also provide incentives to Governments to liberalize international gateways.

1. Towards an Asia-Pacific information superhighway

39. The development of an Asia-Pacific information superhighway is a complex process requiring very close collaboration between member States, as well as with private sector partners and international organizations. In this regard, ESCAP has identified the following principles which should underpin any regional strategy:

(a) *The network should be fully integrated and coherent.* It should provide cross-border connectivity across the continent, with particular focus on reaching rural and less commercially profitable areas. A mesh configuration would allow for "in-network healing" in the event of physical cable outages or political instability that might affect network connectivity in individual countries;

(b) *The network should be of uniform quality.* Currently, some terrestrial networks are patchworks of domestic telecommunications networks which provide variable quality and offer vastly different terms and service guarantees. A single uniform network with standard terms and quality of service would alleviate these problems;

(c) *The network should leverage existing infrastructure.* In order to remain cost effective, any pan-Asian terrestrial network would need to be based on streamlined procurement of rights-of-way, as well as on uniform construction techniques and parameters. This could be realized through a partnership with existing regional infrastructure networks, such as the Asian Highway and Trans-Asian Railway networks, or power transmission networks;

(d) *The network must be cost-effective.* If constructed on a proper scale in terms of geographical coverage and transmission capacity, a pan-Asian terrestrial network could effectively compete with submarine infrastructure at both the regional and intercontinental levels;

(e) *The network should be an open-access one and feature non-discriminatory pricing.* All purchasers of capacity must be able to access the network on equal, non-discriminatory terms. The concept of non-discrimination should also be carried over on a geographical basis so that countries can receive bandwidth at equal prices.

2. Harnessing cross-sectoral synergies for infrastructure development

40. Given the low level of broadband penetration in continental Asia, there is a tremendous opportunity for Governments to look at synergistic approaches to developing an Asia-Pacific information superhighway. Examples from the national ICT infrastructure development strategies of India, the Republic of Korea and the United States suggest that the "co-habitation" of fibre-optic cables with road and railway networks could save capital costs and facilitate access for maintenance and repair. Rail and power networks already have fibre-optic networks for railway signalling and their supervisory control and data acquisition — the so-called SCADA systems — so allowing additional cables would not add significant costs. Furthermore, the surplus capacity could be sold for additional income. There are also opportunities to integrate power transmission and telecommunications, as demonstrated by the vast fibre-optic network laid by the Power Grid Corporation of India Limited.

41. Similar synergies can be achieved when developing cross-country connections. In particular, under the intergovernmental agreements on the Asian Highway, the Trans-Asian Railway and dry ports, countries have already agreed on a set of international border crossings along those networks. By linking the development of the proposed Asia-Pacific information superhighway with these agreements, countries may be able to avoid lengthy "right-of-way" negotiations, which sometimes delay cross-border infrastructure projects.

3. Strengthening ICT connectivity of Pacific island countries

42. The Pacific island countries offer many examples of how ICT connectivity is transforming economies and societies for the better. In particular, mobile phone connectivity is enhancing access to financing and banking services, while the Internet is expanding educational opportunities through distance-learning. However, broadband penetration in the Pacific island countries remains limited, with only five economies (Cook Islands, Fiji, Palau, Tonga and Tuvalu) having more than 1 fixed broadband subscription per 100 inhabitants. Broadband is also still prohibitively expensive: for example in 2012, fixed broadband costs were approximately $19.50 in Fiji and $185.60 in Papua New Guinea, corresponding to 6.4 per cent and 150.5 per cent of gross national income per capita respectively.[21]

43. A number of technological solutions can overcome the high costs and lack of data connectivity and Internet bandwidth. For example, a next generation medium Earth orbit satellite constellation, O3b Networks, was launched in 2013, while the Pacific Regional Connectivity Program is aimed at connecting Samoa, Solomon Islands, Tonga and Vanuatu by submarine fibre-optic cables. However, these solutions will still rely on international bandwidth from land- and sea-based optical fibre. The proposed Asia-Pacific information superhighway could therefore help expand competition, even for countries in the Pacific, thereby reinforcing the case for a regional approach to ICT connectivity.

[21] International Telecommunications Union, *Measuring the Information Society 2013* (Geneva, ITU, 2013).

C. Energy connectivity

44. The Asia-Pacific region remains heavily dependent on fossil fuels, and the region as a whole is a net importer of primary energy. To address its growing demand for energy, the region has a number of existing and planned pipeline projects. Meanwhile several multi-country initiatives are focused on electricity and power grid integration, including the ASEAN Power Grid, the CASA-1000 Project and the SAARC Market for Electricity. However, countries in the region have yet to realize the economies of scale that would come from linking these subregional initiatives through a regional energy cooperation framework.

1. Towards an Asian energy highway

45. The region's energy security could be enhanced by promoting greater cooperation between the region's energy importers and energy exporters by harmonizing policies and by exchanging knowledge, particularly in the areas of energy efficiency and renewable energy technologies. A regional energy arrangement could also explore low-carbon paths, as well as develop regional markets for crude oil, petroleum products and gas, while giving higher priority to pipeline security and safety.

46. To move in this direction, in 2012, ESCAP member States accepted the concept of an integrated regional power grid, which could be termed the "Asian Energy Highway".[22] The so-called energy highway would involve an integrated electricity grid based on a range of primary energy sources, whether fossil fuels, nuclear or renewables. The following encouraging developments are making such an integrated grid more feasible:

(a) Several mutually beneficial power trading arrangements are progressing at various levels of subregional integration;

(b) High-voltage transmission systems, in particular high-voltage direct current systems, are improving the economic range for interconnecting power grids and unlocking access to remote energy resources;

(c) "Smart grid" communication and management technologies are providing opportunities for improved load balancing and are enabling greater optimization of energy flows. These are also more capable of absorbing intermittent renewable energy resources, such as solar and wind.

47. An Asian energy highway would not only connect physical infrastructures, but would also involve integrated market mechanisms to move power more efficiently across the region and optimize the allocation between supply and demand centres. An Asian energy highway would also provide a platform for energy pooling and spot-market pricing. In a competitive environment, a transparent purchasing framework would limit the exposure of deficit countries to distorted pricing and thus help reduce the potential for geopolitical conflict. From the perspective of sustainability, an integrated grid would balance peak loads by using larger transmission grids across different time zones, as well as expand the scope for distributing energy from renewable resources.

2. The need for a strong institutional framework

48. With advances in energy generation and transmission technologies, the Asian energy highway would be technically feasible. However, its

[22] See Commission resolution 68/11 on connectivity for energy security.

success would depend upon institutional and technical harmonization among electricity industries and cooperation among Governments. These challenges could be met through a robust institutional framework for intergovernmental cooperation. To ensure that the benefits are shared, participating countries should also agree on mechanisms to levy user charges on the grid, with the possibility of "ring-fencing" some revenues to finance community development, particularly rural electrification projects.[23]

49. There are also concerns about capacity, as some countries have weak systems for national power generation and management and face chronic power shortages. If existing national power generation and distribution systems are chronically loss-making and have unrealistically low tariffs, there is little prospect for participating in regional schemes.

50. For these reasons, the vision of a regional energy network should be tempered with realism. The pragmatic solution is to consider this not as a regional super-infrastructure proposal but rather as an ongoing and phased process of capacity-building and development. The Asian energy highway may thus be achieved by a twin-track approach of supporting reforms at the national level in conjunction with improvements in subregional and regional power connectivity.

D. People-to-people connectivity

51. With increasing regional connectivity, movements of people across national borders are expected to increase. Furthermore, the region is undergoing a dramatic demographic transition, with some countries ageing so rapidly that their populations are shrinking, while others have a large youth population concentrated in prime employment ages. In this regard, international migration offers an opportunity for the people in the ESCAP region to take advantage of the region's economic growth and enhance their skills, training and knowledge. However, to ensure that such migration is beneficial for all involved, particularly the migrants themselves, it is necessary to consider a broad range of policy options for facilitating and managing the movement of people.

1. Benefits and challenges of international labour migration

52. Increased regional mobility through managed labour migration can lead to shared prosperity in the region through addressing labour market needs, improving skills acquisition and serving as a risk-mitigation strategy for households. In Asia and the Pacific, international migration flows in recent years have predominately been composed of temporary labour migrants. Many countries in the region, such as Thailand, are simultaneously countries of origin, destination and transit for migrants.

53. One of the principal benefits of labour migration for both households and countries of origin is the flow of remittances. In 2013, India, China, the Philippines, Bangladesh, Pakistan and Viet Nam (in that order) were among the world's top 10 remittance-receiving countries in value terms. However, migration can also have negative impacts on sending countries. For example, countries can suffer from a "brain drain", while at the household level, having

[23] For example, the CASA-1000 Project, which is aimed at building a Central Asia-South Asia Regional Electricity Market by exporting power from Kyrgyzstan and Tajikistan to Afghanistan and Pakistan, incorporates benefit-sharing by imposing a surcharge on energy generation to finance development projects identified by local communities along the route of the transmission line.

one or both parents migrate overseas puts many pressures on families and individuals.

54. At the receiving end, destination countries can benefit significantly from labour migration. At various points in time, the high-income countries in the region, such as Australia, Brunei Darussalam, Japan, New Zealand, the Republic of Korea and Singapore, have filled gaps in their labour markets with migrant workers, while middle-income countries, such as Malaysia, Maldives and Thailand, also rely on foreign labour in their construction, manufacturing and other sectors.

55. The rapid growth of labour migration flows in the region has raised the issue of social protection for international migrants, including access to health care and reproductive health services, and income security. Social protection schemes are often limited to the formal sector and the non-migrant population, while workers who are covered by social protection schemes in their countries of origin may lose their entitlements once they take up residence in a new country. One particular challenge to women migrants is the lack of recognition of domestic work as an occupation.

2. Cooperative approaches to managing international flows of labour migrants

56. ESCAP has identified migration as an "emerging opportunity for development", but one which needs to be managed through both national action and multilateral dialogue and cooperation.[24] Given that migration entails both benefits and risks for countries of origin and destination, the responsibility for managing migration lies with both parties. There are currently several examples of bilateral agreements between source and destination countries, but as the region's economies become more integrated, there will be pressure on Governments to develop a geographically broader framework for managing migration.

57. At the same time, there is an urgent need for regional cooperation to establish common standards to protect the rights of migrants, as well as to prevent the trafficking of persons which is increasingly taking place under the guise of consensual migration. At the global level, the principal instrument is the International Convention on Protection of the Rights of All Migrant Workers and Members of Their Families, but to date, the Convention has been ratified only by eight countries in the ESCAP region.[25] Subregional efforts to formalize the rights of migrant workers, such as the ASEAN Socio-Cultural Community Blueprint,[26] are encouraging, while initiatives which support multi-stakeholder dialogue, such as the South Asia Migration Commission established by SAARC member States, should be supported.

3. Strengthening knowledge networks of people and institutions

58. With education becoming more and more globalized, an increasing number of students are seeking tertiary education abroad. In 2012, Australia was the fourth largest host for international students globally, with 6 per cent

[24] *International Migration: An Emerging Opportunity for the Socio-economic Development of the ESCAP Region* (United Nations publication, Sales No. E.02.II.F.40.).

[25] Azerbaijan, Bangladesh, Indonesia, Kyrgyzstan, the Philippines, Sri Lanka, Tajikistan and Turkey. The Convention, which entered into force in 2003, establishes minimum standards that parties should apply to migrant workers and members of their families, irrespective of their migratory status. See General Assembly resolution 45/158.

[26] Available from www.asean.org/archive/5187-19.pdf.

of mobile students, the Russian Federation was sixth with 4 per cent, Japan seventh also with 4 per cent and China ninth with 2 per cent.[27] Moreover, the region is also currently the source of approximately 50 per cent of internationally mobile students, due in part to the growth of students from China.

59. Tertiary education offers significant opportunities for cross-border linkages, knowledge generation and knowledge-sharing. The region has numerous associations and organizations which promote linkages between universities and researchers, including several networks established by ESCAP.[28] New doors for knowledge generation and sharing are also opening up via the Internet: the University of the South Pacific, for example, is widely regarded as a success story for delivering higher education through distance education.

60. These networks can contribute to "knowledge clusters" — networks of individuals in academia and the private sector and Governments — for project planning, joint-research and the exchange of ideas. China, Japan, the Republic of Korea and the Russian Federation are world leaders in terms of expenditure on research and development as a share of GDP, while almost 40 per cent of all researchers in the world are located in Asia and the Pacific.[29] With such a rich resource base, Governments, academic institutes and the private sector can work together to strengthen cross-border collaboration between knowledge clusters.

4. Strengthening business networks and associations

61. Business networks and associations constitute another important type of people-to-people network. While originally a means of bringing together domestic private enterprises, many international networks and associations have been established over the past few decades. Among the best known are the International Chamber of Commerce, the Confederation of Asia-Pacific Chambers of Commerce and Industry, and the SAARC Chamber of Commerce and Industry. Such chambers advocate for and foster private sector development, as well as facilitate trade.

62. In the context of regional connectivity, business associations and networks can help businesses in less developed countries to connect to businesses in other countries. In particular, business associations support the development of small and medium-sized enterprises (SMEs), which account for nearly 50 per cent of all value addition within Asia and the Pacific.[30] As private businesses are often the major drivers, as well as beneficiaries, of better regional connectivity, Governments should expand cooperation with business networks.

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[27] United Nations Educational, Scientific and Cultural Oraganization, *Global Flow of Tertiary-level Students* (2014). Available from www.uis.unesco.org/Education/Pages/international-student-flow-viz.aspx.

[28] Some examples include the Asia-Pacific Research and Training Network on Trade (ARTNeT) and the Network for Knowledge Transfer on Sustainable Agricultural Technologies and Improved Market Linkages in South and Southeast Asia (SATNET Asia).

[29] *Statistical Yearbook for Asia and the Pacific 2013* (United Nations publication, Sales No. E.13.II.F.1.).

[30] *Policy Guidebook for SME Development in Asia and the Pacific* (United Nations publication, Sales No. E.12.II.F.2.).

5. Putting individuals at the heart of people-to-people connectivity

63. The various networks described above require different sets of policy responses, but ultimately they are all linked by the individuals within them. Within people-to-people connectivity, therefore, there are areas of similar or overlapping concern, where ministries should cooperate with each other, as well as with other stakeholders, to discuss and design appropriate policies.

64. With regard to international labour migration, a comprehensive regional framework for managing labour migration should include: protecting the rights of all migrants; more legal channels for labour migration; increased skills-recognition schemes; and further regional norm-setting and cooperation on managing migration. At the same time, regional approaches are not a substitute for structural reforms at the national level, or the ratification of international conventions and instruments to protect the rights of migrants.

65. Meanwhile, Governments should support the efforts of the universities and research institutions in the region to build knowledge networks and promote student exchanges. The future direction of people-to-people connectivity in the ESCAP region will also depend on closer cooperation between international organizations, subregional organizations, business associations and academic networks. In this regard, ICT connectivity, with its potential to link networks of different stakeholders, presents tremendous opportunities for strengthening people-to-people connectivity.

IV. Strengthening institutional coordination and regional cooperation

66. While it can be argued that the private sector has been leading the economic integration of the region, ultimately the main driving force behind regional connectivity is the political will of national Governments. Governments must therefore take the lead in establishing robust institutional frameworks to plan and implement the regional connectivity agenda.

A. Strengthening institutional responses to regional connectivity

67. The complex nature of regional networks requires Governments to develop cross-sectoral policies, both at the national and regional levels. To achieve this, they will need to strengthen institutional mechanisms. The Asia-Pacific region is home to a wide variety of intergovernmental organizations, many of which are already implementing initiatives related to regional connectivity. In particular, ASEAN and APEC have focused on connectivity as part of their regional integration agendas.[31] With the emergence of such initiatives, policy coordination among organizations has become an urgent challenge. In this regard, regional institutions such as ESCAP have an important role to play as a link between subregional, national and global initiatives.

68. Planning and implementing regional connectivity strategies also requires two additional components: the availability of comparable, accurate and timely information and data; and finance. Both of these critical issues can be addressed through regional cooperation.

[31] The Master Plan on ASEAN Connectivity, for example, is one of the first comprehensive intergovernmental strategy documents to focus on connectivity.

B. Statistical standards for strengthened accountability and better policymaking

69. Official statistics enable Governments to develop a shared understanding of trends, issues and bottlenecks, which is fundamental for building consensus on cross-border issues, such as trade, labour mobility, immigration, transport and tourism. In order to be comparable across countries, over time and across different data sources, however, statistics must adhere to internationally agreed standards, such as the System of National Accounts, or those agreed at regional or subregional levels.

70. To move forward the regional connectivity agenda, national Governments are strongly encouraged to adopt global statistical standards and build their capacities for collecting and disseminating official statistics. They should also work more closely together through established forums, such as the United Nations Statistical Commission and the ESCAP Committee on Statistics, to define the type of statistics needed and to identify new and innovative sources for such data.

C. Regional solutions for financing regional infrastructure networks

71. Infrastructure development invariably involves high capital costs, with benefits accruing over the longer run. The pace of infrastructure development is therefore progressing unevenly across the region and tends to be directed towards satisfying domestic needs. Yet the benefits of regional infrastructure networks extend over and beyond national borders, pointing to the need to reconsider the networks as a type of "regional public good". Such approaches can target the "weakest links" of these networks, while at the same time enhancing the connectivity of the disadvantaged countries.

72. Countries should explore regional mechanisms to finance infrastructure development. Already there are examples of regional infrastructure funds, such as the ASEAN Infrastructure Fund, while plans for other multi-donor funds are under way. Negotiations on a "BRICS" development bank, proposed in 2012 by the so-called BRICS countries, namely Brazil, the Russian Federation, India, China and South Africa, are also expected to be finalized in 2014. To complement the efforts of such funds, a regional project preparatory facility could be established to help countries to prepare bankable regional projects.

73. Another regional mechanism is an Asian multi-donor platform, which would collect grants from different donors and allocate them to national or multilateral development banks. The objective would be to use concessional resources to leverage more public and private funding for regional projects, which could help increase the financial viability of such projects or reduce the risks.

74. Finally, there is scope for greater private involvement in financing infrastructure projects, such as through public-private partnerships (PPPs). However, many countries in the region still lack appropriate PPP policy frameworks. ESCAP is currently working with some Governments to develop such frameworks and promote knowledge-sharing among them so that they can learn from each other's experiences.

V. Conclusions and recommendations

75. In this year's theme study, it was found that regional connectivity is inherently multifaceted, and that the benefits of this connectivity may be enhanced by combining different elements. The main conclusions and recommendations of the study are highlighted below.

76. **Institutional coordination is key to strengthening regional connectivity.** As networks are likely to become more integrated and interdependent as they evolve, Governments have to develop cross-sectoral policies on connectivity, at national, subregional and regional levels. This will require greater and more effective institutional coordination. To achieve this, they should make greater use of existing intergovernmental forums, such as the annual sessions of the Commission and the regular meetings of its legislative Committees. One area in particular where institutional coordination is needed is in the adoption and development of global and regional standards, on both technical and procedural issues.

77. **Development of regional networks as "regional public goods".** Countries in the Asia-Pacific region have the opportunity to develop their infrastructure networks in a coordinated and integrated manner. In particular, countries should explore the synergies which can be accrued from the "co-habitation" of infrastructure networks, particularly the laying of fibre-optic cables along roads, railways and electricity distribution networks. However, such an approach requires cross-country consensus, with a clear understanding of the distribution of costs and benefits of improving connectivity. Governments therefore need to further discuss and refine the regional strategies outlined in the present study. In particular, the concept of regional public goods should be further explored as the basis for developing regional financing mechanisms.

78. **Enhancing regional connectivity for disadvantaged countries.** The aim of enhanced regional connectivity should be to create new opportunities for all, especially the least developed countries, the landlocked developing countries and the small island developing States. These countries may wish to use their current endowments to develop industries which are likely to grow in the future. Greater ICT connectivity could help them develop commercial services, such as transport, telecommunications and financing. Meanwhile, all countries in the region can support the disadvantaged countries by enhancing people-to-people connectivity — for example, by encouraging more interactions between students and workers.

79. **Developing networks of people and knowledge.** A country's greatest asset is its people. Governments can expand the potential of their citizens by promoting greater mobility for both skilled and unskilled workers. There would be enormous benefits from developing more coordinated approaches to manage international labour migration in the region. Both source and destination countries should gain, while at the same time protecting migrants and their families from potential negative effects and reducing the risk of trafficking. People's potential can also be developed through academic, civil society and other knowledge networks. Governments could support the development of such networks, for example by encouraging their students and academics to study and work in other countries. Furthermore, they should work closely with the private sector and its representatives to support business network development.

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80. **Next steps towards regional connectivity.** As globalization continues, the region's future will depend on how countries work together. The regional strategies discussed in this study can serve as a catalyst for regional connectivity. Ultimately, however, national Governments must take the lead in forging regional connectivity, both by making the necessary changes in their national policies, as well as by actively participating in regional initiatives on connectivity.

81. ESCAP can support their efforts by providing a neutral platform for frank and informed discussions among relevant stakeholders. In this regard, the multisectoral expert groups, which are being established in accordance with the 2013 Bangkok Declaration on Regional Economic Cooperation and Integration in Asia and the Pacific, can help Governments to identify the best approaches for implementing these regional strategies.